INVESTORS ATTITUDES TOWARDS INVESTMENT IN FINANCIAL SECURITIES

BY

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DECLARATION

This research paper is my original work and has not been presented for a degree in any other University or for any other award.

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I confirm that the candidate under my supervision carried out the work reported in this project.

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DEDICATION

I dedicate this research report to my mother, Monicah Munini.
ABSTRACT

Capital markets are an essential part of modern economics and they drive savings mobilization. Shareholders are key players in the process. An understanding of their behaviour and attitudes towards investing in the securities market is the main focus of this study. In recent years, examples of market inefficiency in the form of anomalies and irrational investor behavior have been observed more frequently (Kahneman and Tversky’s, 1991). It appears that financial analysts have not fully understood the way in which psychological factors affect the investors’ decision making, hence the reason for market inefficiencies.

The purpose of this study is to analyze investors’ attitudes towards investment in securities. Specifically, the objectives of the study are; the impact of company performance and socio-economic environment on investors’ attitudes, the extent to which financial risk affects investors’ attitudes and the extent that informational needs affect investment decision making.

Behavioural finance will provide the fundamental theoretical framework for this study. The empirical research is based on a questionnaire directed towards individual investors in Kenya, more specifically investors of Kenya Airways Limited.

The study design is survey method for which the population constituted 75,531 individual investors. It was found that shareholders in the 36-50 years age bracket dominate the shareholding population.

The results indicate that most shareholders invest in high earning companies and take into account the kind of business the company does before investing. They expect high dividends and
claim that they do not receive adequate dividends for their investments. Stock brokers play a key role in the trading of shares. However, though services provided by brokers are good value for money, investors feel they are not fully knowledgeable about investment decision making. Therefore the securities industry should be doing more to educate investors on good investment decisions.

Further, the stock market is considered by majority of shareholders as a safe place to invest in. Investors are, however concerned about the market volatility and the fear of losing their money. A more understanding of the factors affecting investors decision making would enhance today’s financial markets.
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ACRONYMS AND ABBREVIATIONS

NSE - Nairobi Stock Exchange

MEH - Market Efficiency Hypothesis

IPOs - Initial Public Offerings

SPSS - Statistical Packages for Social Sciences
OPERATIONAL DEFINITION OF TERMS

Investor – this is a person who buys and sells debt instruments.

Attitude – this is the enduring disposition to consistently respond in a given manner to various aspects of the world, composed of affective, cognitive and behavioural components.

Cognitive biases – this refers to the component of attitude that represents one’s general awareness of and knowledge about an object.

Stock Market – this is a mechanism or bringing together buyers and sellers of debt instruments in order to facilitate trading.

Debt instruments – these refer to common stocks, bonds and treasury bills.

Broker - is an agent through whom an investor does buying and selling of stocks.

Financial analyst – this is a person who analyses financial assets in order in order to determine the investment characteristics of those assets and to identify mispricings among those assets.
CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter introduces the study by looking at its background and discussing the problem. It further gives the purpose of the study, states the research objectives as well as the research questions. The significance of the study is highlighted and the limitations and scope of the study are stated.

1.1 Background

Capital markets are an essential part of financial sectors of modern economies and they drive savings mobilization. Well developed capital markets promote economic growth through increased savings mobilization, access to foreign savings and spreading of financial risks in enterprises. They also help governments finance their deficits while reducing the fiscal pressures of debt redemption if the maturities of the securities issued are lengthened. If capital markets can play a key role in savings mobilization, it is important to understand the factors that lie behind the savers attitudes towards them in order to undertake policies that elicit accumulation of savings through the market.

In every stock market, investors have the opportunity to choose among a wide range of investment products, but up to now research in the field of how they express their investment behaviours is still very limited. The exploration and understanding of these behaviours and a consistent and specific education and training are regarded as of high importance in order to assist them and their successful financial future. Since the financial decisions have become more
and more complex and risky, investors have to protect themselves from all possible difficulties in the stock markets. Additionally, they have to be well informed and properly trained how all other investment groups are performing in capital markets.

Financial theory considers investors as rational and wealth maximisers (Brealey and Myers, 2003). They are acting following the basic financial rules and base their strategy on the risk-return consideration. However, the level of risk investors are willing to undertake is not the same, depending mainly on their personal attitudes towards risk. Rational investors, after comparing the level of risk between two investment alternatives, and since their risk is at the same level, they select that alternative which is going to offer them higher return.

Research in behavioural finance has been of high interest in recent years providing evidence that investors’ financial decisions are also affected by internal and external behavioural factors (Shefrin, 2000; Shleifer, 2000). As an internal behaviour factor somebody can consider investors’ knowledge of themselves while as an external behaviour factor somebody can consider the way a choice is presented or structured. The sense that little has been written about the behaviour of individual investors, and other investors’ groups, is obvious and strongly referred by Warneryd (2001) in his review of theory of behavioural finance.

Standard analysis of company financial statements examines fundamentals to explain and predict their growth and value added potential, but in many cases, current fundamentals-based models fail to explain the past adequately, or predict the future reliably. Largely as a result of these failures, researchers have started to look beyond fundamentals to the role of other ‘non-fundamentalist’ influences on financial and stock markets including the approach to forecasting taken by practitioners. Goodhart (1988) finds that the interplay between professional analysts
basing their views on fundamental analysis and those using the chartist approach influences the market outcome. Shiller (1989) explains excess bond and stock market volatility by ‘irrational’ patterns of investor behaviour and suggests that technical analysis is one of the important factors that gave rise to the October 1987 international stock market crash. Despite the increasing interest in non-fundamental analysis, there is little empirical evidence on the prevalence and importance of such techniques in the stock markets (Lui and Mole, 1998).

In this paper, several results from the behavioural finance literature have been reviewed in an attempt to shed light on the question: what do the merits of behavioural finance suggest on the types of input variables that a financial modeling framework should take into account? Such a question is of great importance to quantitative financial analysts.

Approaches based on perfect predictions, completely flexible prices and complete knowledge of investment decisions of other players in the market, are increasingly unrealistic in today’s global financial markets. Behavioural finance is a new paradigm of finance theory, which seeks to understand and predict systematic financial market implications of psychological decision making (Olsen, 1998). By understanding the human behaviour and psychological mechanisms involved in financial decision making, standard finance models may be improved to better reflect and explain reality in today’s evolving markets. All investors want to make the right decisions about their investments. But research has shown that investors have a tendency for types of behaviour that are not beneficial to the management of their investments.

1.2 Problem Discussion

Shareholders are key component of capital markets. An understanding of their behaviour and attitudes towards the stock market is thus an imperative tool towards enhancing the capital
markets and the economy at large. This is especially when it is borne in mind that the savings/investment interactions increase as the economy grows and develops and arguably the vice versa holds. Savers who initially look to bank deposits as key assets in their financial savings acquire alternative instruments in the form of equities from which they may expect to derive higher income earnings than bank interest on their deposits.

Capital market deepening raises financial intermediation increases growth and thus private savings. More direct evidence on the impact of capital market reforms shows a sound capital market may reduce capital flight. The study examines factors that determine shareholder behaviour in the market, relying mainly on a survey of shareholders attitudes towards the securities industry.

1.3 General Objective

The purpose of this study is to analyze investors' attitudes towards investment in securities. Investors possess different characteristics that affect their behaviour in the decision making process. An analysis of these characteristics is the main purpose of this research.

1.4 Specific Objectives

Specific objectives of the study include;

a) To determine the impact of company performance on investors' attitudes.

b) To find out the extent to which financial risk affects investors' attitudes.

c) To determine the extent that informational needs affect investment decision making.

d) To determine the impact of socio-economic environment on investors' attitudes.
e) To recommend ways of improving the investors attitudes towards investment in securities.

1.5 Research Questions

This study was guided by the following research questions;

a) How does company performance affect investors’ attitudes towards investing in securities?

b) How does financial risk affect investors’ attitudes?

c) How do informational needs affect investors’ attitudes?

d) How does the economic environment affect investors’ attitudes towards investing?

1.6 Significance of the Study

The findings of this study will be of great benefit to the following interested parties:

Investors: Make prudent investment decisions in addition to creating positive attitude towards the securities market.

Stock market and brokers: Gain insights on how to improve the educational services they provide to investors.

Management of public listed companies: Look for ways of attracting prospective investors.

Researchers: Provide them with a basis for further research/studies on investing behaviours portrayed by investors.
1.7 Limitations and Scope of the Study

The researcher anticipated to encounter certain limitations which include:

a) Difficult in obtaining complete information because some respondents may be uncooperative while others may not be reachable, due to change in address thus necessitating substitution which is time consuming.

b) Due to financial constraints, obtaining responses from all sampled respondents and also to make follow up on those who do not provide immediate responses, may prove difficult.

c) The time required to carry out the research may be limited.

The study covers only shareholders of Kenya Airways limited based in Nairobi.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

The chapter will present the theories underlying this research. The chapter begins with a description of the standard as well as behavioural finance which often contradicts modern financial theories. Subsequently, different aspects and principles of behavioural finance are discussed. Further, the chapter deals with the empirical evidence. And finally, the researcher develops a conceptual framework based on studies carried out in the past.

2.1 Theoretical Framework

2.1.1 Standard Finance

Standard finance is the body of knowledge built on the pillars of the arbitrage principles of Miller and Modigliani, the portfolio principles of Markowitz, the capital asset pricing theory of Sharpe, Lintner and Black, and the option pricing theory of Black, Scholes, and Merton. These theories consider markets to be efficient and are highly analytical and normative.

Modern financial economic theory is based on the assumption that the representative market actor in the economy is rational in two ways: the market actor makes decisions according to axioms of expected utility theory and makes unbiased forecasts about the future. According to the expected utility theory a person is risk averse and the utility function of a person is concave implying that marginal utility of wealth decreases. Asset prices are set by rational investors and consequently rationality based market equilibrium is achieved. In this equilibrium securities are priced according to the efficient market hypothesis, which is explained below.
The Efficient Market Hypothesis

According to the efficient market hypothesis, financial prices incorporate all available information and prices can be regarded as optimal estimates of true investment value at all times. The efficient market hypothesis is based on the notion that people behave rationally, maximize expected utility accurately and process all available information (Shiller, 1998). In other words, financial assets are always priced rationally, given what is publicly known. Stock prices approximately describe random walks through time: the prices changes are unpredictable since they occur only in response to genuinely new information, which by the very fact that it is new, is unpredictable (Shiller, 2000). Due to the fact that all information is contained in stock prices it is impossible to make an above average profit and beat the market over time without taking excess risk.

Behavioural Finance

Behavioural finance is a new paradigm of finance, which seeks to supplement the standard theories of finance by introducing behavioural aspects to the decision making process. Contrary to the Markowitz and Sharp approach, behavioural finance deals with individuals and ways of gathering and using information. Behavioural finance seeks to understand and predict systematic financial market implications of psychological decision processes. In addition, it focuses on the application of psychological and economic principles for the improvement of financial decision making (Olsen, 1998).

Market efficiency, in the sense that market prices reflect fundamental characteristics and that excess returns on average are leveled out in the long run, has been challenged by behavioural finance. There have a number of studies pointing to market anomalies that can not be explained
with the help of standard financial theory, such as abnormal price movements in connection with
IPOs, mergers, stock splits and spin-offs. Throughout the 1980s and 1990s statistical anomalies
have continued to appear which suggests that the existing standard finance models are, if not
wrong, probably incomplete. Investors have been shown to react ‘logically’ to new information
but to be overconfident and to alter their choices when given superficial changes in the
presentation of investment information (Olsen, 1998). During the past few years there has, for
example, been a media interest in technology stocks. Most of the time, there has been a positive
bias in media assessments, which might have led investors to making incorrect investment
decisions. These anomalies suggest that the underlying principles of rational behaviour
underlying the efficient market hypothesis are not entirely correct and that there is need to look
at, as well, at other models of human behaviour, as have been studied in other social sciences
(Shiller, 1998). The following sections introduce some of the findings and principal theories
within behavioural finance that often contradict the basic assumptions of standard theory.

2.1.2 The Prospect Theory

Prospect theory is a mathematically formulated alternative to the theory of expected utility
maximization. The utility theory offers a representation of truly rational behaviour under
certainty. According to the expected utility theory investors are risk averse. Risk aversion is
equivalent to the concavity of the utility function. Every additional unit of wealth is valued less
than the previous equivalent increase in wealth. Despite the obvious attractiveness of this
expected utility theory, it has long been known that the theory has systematically failed to predict
human behaviour, at least in certain circumstances.
Another foundation of the prospect theory is the Kahneman and Tversky (1979) value function. The value function differs from the utility function in expected utility theory due to a reference point, which is determined by the subjective impression of individuals. According to the conventional expected utility theory, the utility function is concave downward for all levels of wealth. On the contrary, according to the value function the slope of the utility function is upward sloping for wealth levels under the reference point and downward sloping for wealth levels after the reference point. The reference point is determined by each individual as a point of comparison. For wealth levels under this reference point investors are risk seekers, that is, they are prepared to make riskier bets in order to stay above the preferred target level of wealth. Whereas, for wealth levels above this reference point, the value function is downward sloping, in line with conventional theories, and investors are risk averse.

These two phenomena, the preference for certain outcomes and preference for risk when faced with losses, discovered by Kahneman and Tversky (1979), may explain some premises of investors irrational behaviour. Due to the fact that the reference point in the value function always moves with wealth to stay at the perceived current level of utility, investors will behave in a risk adverse manner even when small amounts of wealth are in question. Subsequently, they will prefer taking a risk when confronted with losses. This phenomenon, called loss aversion is presented in the following section. Likewise, regret is an aspect of the prospect theory that can be traced to the value function theory.

- **Loss Aversion**

Kahneman and Tversky sought to provide a theory that describes how decision makers actually behave when confronted with choices under uncertainty. The value function shows the sharp
asymmetry between the values that people put on gains and losses. This asymmetry is called loss aversion. Empirical tests indicate that losses are weighted about twice as heavily as gains – losing $1 is about twice painful as the pleasure of gaining $1 (Kahneman and Tversky, 1991). This can be expressed as the phenomenon in which people will tend to gamble in losses, that is, investors will tend to hold on to the losing position with the hope that prices will eventually recover. This is due to the fact that the utility function under the prospect theory is upward sloping for wealth levels under each individual’s reference point. Prospect theory also predicts that investors will be risk averse against gains.

Loss aversion can help explain the tendency to hold on to loss making stocks while selling winning stocks too early. Shefrin and Statman (1985) called this occurrence of “selling winners early and riding losers too long” as the disposition effect. When investors view stocks on an individual basis, then risk aversion in gains will cause them to sell too quickly into rising stock prices, thereby depressing prices relative to fundamentals. This sets the stage for a further rise in price when stock prices return to fundamental values.

Loss aversion also implies the decision making is sensitive to the description of the action choices, that is, the ways the alternatives are framed (Kahneman and Tversky, 1990). This role of frames or mental accounting is represented below.

• Mental Accounting

Frames and mental accounting are part of the prospect theory. It describes the tendency of people to place particular events into different mental accounts based on superficial attributes (Shiller, 1998). The main idea underlying mental accounting is that decision makers tend to separate the different types of gambles they face into separate accounts, and then apply prospect theoretic
decisions rules to each account by ignoring possible interaction between the accounts. Mental accounts can be isolated not only by content, but also in respect to time (Goldberg, von Nitsch, 2001).

Mental accounting can serve to explain why investors are likely to refrain from readjusting his or her reference point for a stock (Shefrin and Statman, 1985). When the stock is purchased, for example, a stock for Ericsson, a new mental account for the particular stock is opened. The natural reference point, as in the Kahneman and Tversky valuation function described in 2.2 is the asset purchase price. A running score is then kept on this account indicating gains or losses relative to the purchase price. When another stock is purchased, for example, Nokia, another separate account is created. A normative frame recognizes that there is no substantive difference between the returns distributions of the two stocks, only a difference in names. However, a situation involving the sale of Ericsson stock when it has decreased in price and using the proceeds to buy Nokia stock may be framed as closing the Ericsson account at loss. It has been argued that decision makers encounter considerable difficulty in closing a mental account at such a loss (Thaler and Johnson, 1985).

The role of frames is illustrated in the dividend puzzle according to which private investors treat dividends separately from capital gains. In a world without taxes and transaction costs investors would be indifferent between dividend dollar and capital gains dollar. Moreover, in a world where dividends are taxed more heavily than capital gains, standard investors know that they are actually better off when companies refrain from paying dividends. So why do companies pay dividends. A dividend dollar is different from capital gain according to the prospect theory because the investor frames the dollars into two distinct mental accounts (Shefrin and Statman, 1984). Therefore, even though a stock paying out dividends might be decreasing in price an
investor may be reluctant to sell the stock in fear of losing a mental account containing dividend income. Dividends can be thought to be of separate gain form capital gain due to the rise in the stock price itself. Financing consumption out of dividends further avoids the anticipated regret of selling a stock that might rise later in value.

Mental accounting can result in “good money being thrown into bad money” by continuous operation of non profitable ventures in the hope that recovery will somehow take place. It might also explain framing which is beneficial to investors with imperfect self control – a phenomenon described below.

- **Self – Control**

Mental accounting and framing may also be used to mitigate self control problems, for example by setting up special accounts that are considered off-limits to spending urges (Thaler and Shefrin, 1981). Glick (1957) reports that the reluctance to realize losses constitutes a self control problem; he describes professional traders who are very prone to let their losses “ride”. It is the control of losses that constitutes the essential problem. The traders’ problem was to exhibit sufficient self control to close accounts at a loss even though they were clearly aware that riding losses was not rational. Self control is also exhibited in the dividends puzzle, mentioned earlier in mental accounting section. For example, old investors, especially retirees who finance their living expenditures from their portfolios, worry about spending their wealth too quickly, thereby outliving their assets. They fear loss of self-control, where the urge for immediate gratification can lead to overspend (Shefrin, 2000).
Regret

There is a human tendency to feel the pain for having made errors, even small errors. If one wishes to avoid the pain of regret, one may alter one’s behaviour in ways that would in some cases be irrational. Regret theory may help explain the fact that investors, as explained in the section covering loss aversion, defer selling stocks that have gone down in value and accelerate the selling of stocks that have gone up in value (Shefrin and Statman, 1985). The theory may be interpreted as implying that investors avoid selling stocks that have gone down in order not to finalize the error they make and in that way avoid feeling regret. They sell the stocks that have gone up in order not to feel the regret of failing to do so before the stock later fell. This behaviour has been documented using volume of trade data by Ferris, Haugen and Makhija (1988) and Odean (1996).

To avoid new information, contrary to the subjective beliefs of the individual or developing arguments to maintain own beliefs can also help explain the herd behaviour.

2.1.3 Heuristics

Heuristics refers to the process by which people find things out for themselves, usually by trial and error. Trial and error often leads people to develop “rules of thumb”, but this process can lead to other errors (Shefrin, 2000). Heuristics can also be defined as the use of experience and practical efforts to answer questions or to improve performance. Due to the fact more and more information is spread faster and faster, life for decision makers in financial markets has become more complicated. This implies increased use of heuristics which is often a mostly inevitable approach, but not always beneficiary.
Heuristics may help to explain why the market sometimes acts in an irrational manner, which is opposite to the model of perfectly informed markets. The interpretation of new information may require heuristic decision making rules, which might later have to be reconsidered. The whole market can initially act in the wrong way.

Herd behaviour is a form of heuristics where individuals are led to conform to the majority of individuals, present in decision making environment, by following their decisions. However, herd behaviour, as with other heuristics may lead astray when they follow. In experimental settings, people tend to show excessive confidence about their own judgements. Overconfidence can also be traced to the “representativeness heuristic” (Kahneman and Tversky, 1974) a tendency for people to try to categorize events as typical or representative of a well known class. In the stock market, for example, investors might classify some stocks as growth stocks based a history of consistent earnings growth, ignoring the likelihood that there are very few companies that will keep growing.

- **Herd Behaviour**

A fundamental observation about human society is that people who communicate regularly with one another think similarly. Part of the reason people’s judgements are similar at similar times is that they are reacting to the same information. The social influence has an immense power on individual judgement. When people are confronted with the judgement of a large group of people, they tend to change their “wrong” answers. They simply think that the other people could not be wrong. They are reacting to information that a large group of people had reached a judgement different from theirs.
People are influenced by their social environment and they often feel pressure to conform. Herd behaviour may be the most generally recognized observation on financial markets in psychological context. Many players on financial markets might think that a currency or equity is not correctly priced, but they nevertheless refrain from a contrary financial exposure.

Even completely rational people can participate in herd behaviour when they take into account the judgement of others, and even if they know that everyone else is behaving in a herdlike manner. The behaviour, though individually rational, produces group behaviour that is irrational and causes fluctuations in the market. The “noise trading” theory stems from the fact that investors with a short time horizon are influencing the stock prices more than the long term investors are. Investors, with no access to insider information, irrationally act on noise as if it were information that would give them an edge (Thaler, 1993).

Another important variable to herding is the word of mouth. People generally trust friends, relatives and working colleagues more than they do the media. In a study private investors were asked what first drew their attention to a company they recently had invested in. only six percent of the respondents specified newspapers and periodicals (Shiller and Pound, 1986).

The notion that the level of market prices reflects the outcome of private investors’ aggregated assessments and consequently the true value of the market may be incorrect. People can instead be rationally choosing not to waste their time and effort in exercising their judgement about the market and thus choosing not to exert any independent impact on the market (Shiller, 2000). This can lead to herdlike behaviour and act as a source of stock market over or under pricing.
Overconfidence and Over and Under reaction

The key behavioural factor and perhaps the most robust finding in the psychology of judgement needed to understand market anomalies is overconfidence. People tend to exaggerate their talents and underestimate the likelihood of bad outcomes over which they have no control. March and Shapira (1987) showed that managers overestimate the probability of success in particular when they think of themselves as experts.

De Bondt and Thaler (1985) show that people tend to overreact to unexpected and dramatic news events. Consistent with the predictions of the overreaction hypothesis, portfolios of prior losers are found to outperform prior winners. Overconfidence seems to be related to some deep-set of psychological phenomena.

Price reactions to information are crucial for market behaviour. Recent empirical research in finance (Barberis, et al, 1998) has uncovered two families of pervasive regularities: underreaction of stock prices to news such as earnings announcement, and the overreaction of stock prices to a series of good or bad news. Underreaction means that current good news has power in predicting positive returns in the future. Overreaction implies that securities that have had long record of good news tend to become overpriced and have low average returns afterwards.

Many investors feel do have speculative reasons to trade often, and apparently this must have to do with a tendency for each individual to have beliefs that he or she perceives better than others’ beliefs (Shiller, 1998). It is as if most people think they are above average. Shiller (1987) observed in a survey of the 1987 US market crash, a surprisingly high confidence among investors in intuitive feelings about the direction the market would take after the crash.
Therefore, overconfidence may help explain possible general market overreactions as well as excess volatility and speculative asset prices.

- **Anchoring**

Anchoring refers to the decision making process where quantitative assessments are required and where these assessments may be influenced by suggestions. People have in their mind some reference points (anchors), for example previous stock prices. When they get new information they adjust this past reference insufficiently (underreaction) to the new information acquired. Anchoring describes how individuals tend to focus on recent behaviour and give less weight to longer time periods.

Values in speculative markets, like the stock market are inherently ambiguous. In the absence of any better information, past prices are likely to be important determinants of prices today. Therefore the anchor is the most recently remembered price. The tendency of investors to use this anchor enforces the similarity of stock prices from one day to the next. For individual stocks, price changes may tend to be anchored to price changes of other stocks, and price earning ratios may be anchored to other firms’ price earnings levels. This kind of anchoring may explain why individual stock prices move together as much as they do and thus why stock price indices are as volatile as they are.

The anchoring phenomena would appear relevant to ‘the sticky prices’ that are so talked about by macroeconomists. As long as past prices are taken as a suggestion of new prices, the new prices will tend to be close to past prices.
Empirical evidence suggests that investment professionals may have different practices in different markets and may use different techniques for market forecasting in different time horizons. Thus, it is probable that the practice of market forecasting and stock selection in Kenya may be different from that of other developed stock markets, such as the US market. For example, in the US, detailed reports on the stock market are mainly found on financial newspapers and the reports are fundamental analysis oriented.

Individuals are always encouraged to own shares either directly or through managed funds. Despite the importance of individuals’ investment decisions, however, little is known about the factors that influence them.

A body of research has developed, exploring how decisions to sell or buy financial assets are made and how individuals as well as investment professionals choose between financial assets and it is to this that the study seeks to explore further. Consequently, the review of the literature concentrates on work involving individual as well as professional investors, since they are the focus of this study.

2.2.1 Individual investors

Individuals’ investment strategies have been explored through a body of studies performed in the past. Green and Maheshwari (1969, p. 442) examined whether ‘mean and variability of return represent salient attributes in respondent’s perceptions of similarities and differences among a group of stocks’. They provided evidences that mean and variance were consistent. Potter (1971) identified six factors: dividends, rapid growth, investment for saving purposes, quick profits
Fisher and Statman (1997) relying on the general agreement that investment decision is a complex one, reveal that investors are not only concerned about risk and return when buying shares since there are other parameters to take into consideration. Clark-Murphy and Soutar (2003) in their study of what individual investors value in Australia, suggest that the vast majority of individual investors have little interest in speculation and are by nature long term investors. All the above mentioned studies have been conducted in developed stock markets such as USA, Australia and Netherlands.

2.2.2 Professional investors

On the other hand there are few studies examining the way that various investor groups are making their investment decisions, especially in less developed countries with a moderately sophisticated capital market. Nassar and Rutherford (1996) have conducted one concerning Jordan, while Naser and Nuseibeh (2003) one for Saudi Arabia. They asked the user groups to explain their attitudes towards annual reports and the usage of these reports in supporting their investment decisions. Evidence show that investors employ annual reports in about the same way as those in developed countries with sophisticated capital markets, but they rely more on information obtained directly from the companies (Nassar and Rutherford, 1996) and do not consult intermediary sources of corporate information in order to make informed decisions (Naser and Nuseibeh, 2003). Overall, investors seem to use, mainly, fundamental analysis and, to a lesser degree, portfolio analysis (mean-variance analysis).

Other studies concerning mainly professional investors in sophisticated capital markets, such as Hong Kong (Lui and Mole, 1996, 1998; Wong and Cheung, 1999), UK (Grinyer, Russell and Walker, 1991; Taylor and Allen, 1992; Collison, Grinyer and Russell, 1996) and US (Frankel
and Froot, 1986 and 1990; Carter and Van Auken, 1990) reveal that these groups of investors rely more on fundamental and technical analysis and less on portfolio analysis. From their findings we realize that professional investors use methods and techniques different from those proposed by academics (e.g., CAPM, APT, and Market Value Based measures). Additionally, many scholars (for example, Black, 1986; Campbell and Shiller, 1988; Fama and French, 1989; Shiller, 1989; Shleifer and Summers, 1990; Theodossiou, 1991; Bromwich, 1992; Theodossiou et al., 1996) contributed to the fields of fundamental analysis, technical analysis, portfolio analysis and noise in the markets. Their results indicate that the extended use of fundamental or technical analysis depends on many factors. For instance, analysts from large firms in Hong Kong, especially those with high positions and high experience, rely more on fundamental analysis and less on technical analysis. On the other hand, analysts in brokerage firms rely more on technical and less on fundamental analysis and portfolio analysis (Wong and Cheung, 1999).

They also provide insights that investment professionals may have different practices in different markets and may use different techniques for market forecasting in different time horizons. For example, at shorter horizons, technical analysis is more frequently used than fundamental analysis while the opposite occurs when the time horizon tends to increase (Wong and Cheung, 1999; Lui and Mole, 1988).

From the above survey findings we could conclude that the traditional approaches, including both fundamental analysis and technical analysis, are still dominant in some developing and most of the developed financial markets. They also suggest that investment professionals and individuals may have different practices in different markets and may use different techniques for market forecasting in different time horizons.
2.3 Conceptual Framework

Attitude influence the decision that one is likely to make. Various factors may contribute to the attitude of an individual. In this study, conceptual framework will show the relationship between the independent variables and the dependent variable. This is shown by the figure 2.1 below.

Fig 2.1

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company performance</td>
<td>Attitudes towards investment in securities</td>
</tr>
<tr>
<td>Financial risk</td>
<td></td>
</tr>
<tr>
<td>Informational needs</td>
<td></td>
</tr>
<tr>
<td>Economic environment</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher's
2.3.1 Company performance

Earning is referred to as a final business performance in a period time for a corporate company. When a company announces a higher earning, it means the company has good management performance in a period of time. Nevertheless, every company has its own accounting system to deal with their accounts, which show different earning results. Under such circumstances, how to find out a real story in their figures of earning is the major concerns for investors.

Many researches point out that earning quality is direct proportion to the stock gains, and think the company with better earning quality will receive a positive response from their stock price (Beaver et al., 1979; Lin Hui-mei, 1994). In a research by Lev and Thiagarajan (1993), finance indicators often used by analysts are to be used to measure a company’s earning quality, then, accordingly the profit-making capability of the company can be judged. When a company is found to be with better earning quality, its future earning growth will be higher. Hence, Lev and Thiagarajan claims that an effective analysis of the earning quality of a company may predict the future profit-making capability of the company as well as increase its investment returns.

2.3.2 Financial risk

In its simplest form risk to an investor is the chance that he will end up losing some or all of the money invested. The more risk an investor is prepared to assume, the greater the potential return. The amount of risk an investor is prepared to take will vary from one person to another. Typically, investors will be more risk averse as regards their retirement capital as opposed to discretionary investments. Similarly, an investor’s risk profile will change as his life circumstances change. An older investor approaching retirement will be less willing to assume risk than will a young investor who has plenty of time on his side.
It is obvious that risk and return go hand in hand. For this reason, an investment return offered by a certain investment that is in excess of the market return for that particular type of investment will be a good indicator that the risk involved is higher.

The term of an investment also has a significant effect on risk. For an investor who wishes to invest only for one year, choosing unit trusts as the investment medium could be regarded as high risk. A fall in the market during that period could result in the investor losing his money. A deposit with a reputable financial institution would seem to be more suitable and have a lower risk. If however, the investor wished to be invested for a term of ten years, the unit trust would not be a high risk investment. On the contrary, the deposit could be regarded as high risk simply because the combined effects of inflation and taxation could result in the investor losing money in real terms. The most important consideration involving a decision about risk is that the investment is suited to the risk profile of the investor.

2.3.3 Informational needs

Information needed for investment decision making comes from various sources which include information from the company itself, recommendations and forecasts from financial analysts as well as the media. A study by Peter Platan (2002) showed that investors rely on company information to make important decisions.

2.3.4 Economic environment

An extended downturn in the national economy could negatively affect consumers' disposable income and spending patterns, job growth, interest rates, and, subsequently, the price of company stocks. In a depressed economic environment, access to equity capital may also be restricted or
costly, to the point of becoming impractical. It is important to note that the performance of the
real estate industry in general typically trails that of the national economy.

2.3.5 Investor's Attitudes

An investor's perceptions, whether positive or negative, can skew their cognitive judgment. For
an in-depth example of how negative or positive perceptions guide decision-making ability, the
general's decision is explained below.

The story of the general's decision illustrates how, as a rule, people are much more sensitive to
losses than to gains. Losses tend to have a greater emotional impact than gains. And as a result,
we are willing to take much more risk to avoid losses than to secure gains. The relevance of this
effect to investment decisions is obvious. This particular phenomenon, the willingness to take
risks to avoid losses, has been used to explain why some people buy more shares of their losing
stocks as the prices fall even farther.

Because the perceptions skew, investors are willing to take on more risk to avoid facing a loss
than they are willing to take on in order to realize a gain. Other factors affecting investors' attitudes in addition to risk include, company performance, informational needs as well
economic environment. These have been explained separately in the literature review.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the overall approach of the study as well as the choice of method. It focuses on the research design, target population, sample of the study, sampling procedures and data collection methods.

A method can be described as an instrument in solving problems and arriving at new knowledge of the subject in question. Everything that contributes in achieving goals is part of the method.

3.1 Research Design

In order to achieve the purpose of the study, quantitative as well as qualitative methods were applied. The quantitative method refers to the survey which was implemented in the form of a questionnaire that was directed at individual investors. This method is chosen because it helps the researcher determine how well practical decision making framework and behaviour of investors in reality are consistent with the existing theories in finance. Through a qualitative method, the researcher aims to describe the basic concepts of behavioural finance in order to improve the understanding of the subject.

Further, the survey method is advantageous as the collected data is unique and contemporary in nature and questions may be formulated to specifically correspond to the area being researched. Surveys are also quite flexible and provide valuable information to the researcher and which is required to compliment secondary data (Wiedersheim-Paul and Eriksson, 1997)
3.2 Target population

The population of the study constituted all Kenyan individual investors of Kenya Airways. The membership of Kenya Airways investors total up to 78,650 members made up of small investors and large or corporate investors as shown on table 1 below.

Table 1: Membership of Kenya Airways Investors

<table>
<thead>
<tr>
<th>Shares</th>
<th>Number of shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 500</td>
<td>34,914</td>
</tr>
<tr>
<td>501 to 5,000</td>
<td>41,150</td>
</tr>
<tr>
<td>5,001 to 10,000</td>
<td>1,196</td>
</tr>
<tr>
<td>10,001 to 100,000</td>
<td>1,210</td>
</tr>
<tr>
<td>100,001 to 1,000,000</td>
<td>160</td>
</tr>
<tr>
<td>Above 1,000,000</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>78,650</td>
</tr>
</tbody>
</table>

Out of the total number of investors in Kenya Airways, 75,531 are Kenyan individual members while the rest are institutional and foreign investors.

3.3 Sample Size and Sampling Technique

The sample was selected using the purposive sampling technique. This method is used because it is the individual investors who have the required information with respect to the objectives of the researcher’s study (Mugenda and Mugenda, 1999).
There are several categories of shareholders at Kenya Airways, but only the Kenyan individual investors could provide the necessary information for the purpose of this study. A list of all individual investors was obtained from the company registrars from which a random sample of 200 investors was selected using the table of random numbers. The reason for use of the random sampling method is that the number of investors is quite large.

3.4 Research Instruments

The researcher used both questionnaires and personal interviews to collect data. Questionnaires included closed ended questions only. The two methods were used due to diversity of the respondents. Personal interviews were used to compliment the questionnaires because questionnaires tend to limit information. This helped in validating the research findings.

3.5 Data Collection Procedures

Data for this study was primarily collected through a survey in form of a questionnaire as well as through research based on existing material concerning behavioural finance. A letter of introduction and permit was obtained from the University to allay fears and suspicion.

With the help of research assistants, the researcher administered the questionnaire in person. This approach made it possible for the researcher to answer some of the respondents immediately. Where it was not possible to reach the respondents, questionnaires were emailed to them.

3.6 Data Analysis

Data collected was edited and coded to facilitate analysis. Statistical Package for Social Sciences (SPSS), in integral system for computer analysis was used to enter the data into the computer. Data was analyzed using frequencies, tables, pie chars, graphs and percentages.
3.6.1 Primary Data

Primary data refers to data, which is collected for a specific purpose and which is required in order to compliment secondary data (Wiedersheim-Paul and Eriksson, 1997). The primary data in this project consists of a survey in the form of a questionnaire directed at individual investors. The questionnaires were administered in person while some were emailed and follow ups made to obtain responses. The questionnaire consists of 27 questions concerning the fundamental factors affecting financial decision-making and behaviour of investors.

3.6.2 Secondary Data

Secondary data refers to the existing and summarized material of the subject in question. This data originates from sources such as databases, literature, journals, and the Internet (Wiedersheim-Paul and Eriksson, 1997). The secondary data used in this research refers to the existing theories in finance, more specifically behavioural finance and the literature on the subject.
CHAPTER FOUR

FINDINGS, ANALYSIS AND PRESENTATION

4.0 Introduction

In this chapter, the questionnaire that was conducted is presented and the results obtained from the investors described. The questionnaire which is included in Appendix iii was directed at individual investors as described in chapter 3. 129 responses were received from the investors.

Thus this chapter will describe the profile of the respondents as well as the results obtained through the questionnaires.

4.1 Profile of the investors

The respondents were analyzed in terms of age, marital status, gender and educational achievements. Further, the employment as well as brokerage status of the investors were also analyzed. The profiles of investors are described below.

• Investors by age brackets

Decomposition of the respondents by age bracket shows that the 36-50 age bracket (54.3 percent) is the backbone of the shareholding group in Kenya Airways. Those under 25 years of age was 8 percent, 26-35 age bracket was 34.1 percent while those above 51 years was 10.9 percent (see table 2 below). The most frequent shareholder is a married person. The marital status of the respondents is shown on table 3.
### Table 2: Investors by age brackets

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25 years</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>.8</td>
</tr>
<tr>
<td>26-35 years</td>
<td>44</td>
<td>34.1</td>
<td>34.1</td>
<td>34.9</td>
</tr>
<tr>
<td>36-50 years</td>
<td>70</td>
<td>54.3</td>
<td>54.3</td>
<td>89.1</td>
</tr>
<tr>
<td>51 years and above</td>
<td>14</td>
<td>10.9</td>
<td>10.9</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>129</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Table 3: Marital status

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SINGLE</td>
<td>36</td>
<td>27.9</td>
<td>27.9</td>
<td>27.9</td>
</tr>
<tr>
<td>MARRIED</td>
<td>92</td>
<td>71.3</td>
<td>71.3</td>
<td>99.2</td>
</tr>
<tr>
<td>WIDOWED</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>129</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

In gender perspective, 55.8% of the investors who responded to the questionnaire are men while 44.2% are female as shown in Figure 4.1.
In terms of educational achievement, the sample is dominated by holders of first degree (51.2 percent), followed by diploma graduates (20.2 percent) and holders of a masters degree (18.6 percent). The repartition of investors by educational achievement is presented in Figure 4.2.

Figure 4.1:- Gender of investors

![Gender of investors](image)

Figure 4.2:- Education level of investors

![Education level of investors](image)

Majority of the respondents are employed either full time (57.4 percent) or part time (25.6 percent) as shown on figure 4.3 below.
Brokerage status

Stock brokers play a key role in the acquisition of shares. 80.6 percent of the respondents have one broker, 8.5 percent have two or more brokers. Most of the respondents have one broker as shown on figure 4.4.
In summary therefore, the characteristic shareholder is employed, has one broker, was in the age bracket of 36-50 years, is a married male and holder of a first degree.

4.2 Analysis of the Study Objectives

4.2.1 Impact of Company Performance on investors' attitudes

Below is the analysis of the responses by the investors regarding the impact of company performance on their investment attitudes.

- I invest in high earning companies

Company performance is of paramount importance to investors. 84.5 percent of the respondents invest in high earnings companies, 7 percent are indifferent and 8.5 percent invest in low earning companies. This shows shareholders sensitivity to company performance.
Figure 4.5: I invest in high earning companies

- My investment decision is affected by the business of the company

An overwhelming majority of shareholders say that they do take into account what a company does before they invest in it. From table 4 below, 95.3 percent of the investors are influenced by the business the company does.

Table 4: Influence of company business on investment decisions

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Percent</td>
</tr>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STRONGLY AGREE</td>
<td>55</td>
<td>42.6</td>
<td>42.6</td>
<td>42.6</td>
</tr>
<tr>
<td>AGREE</td>
<td>68</td>
<td>52.7</td>
<td>52.7</td>
<td>95.3</td>
</tr>
<tr>
<td>NEITHER AGREE NOR</td>
<td>5</td>
<td>3.9</td>
<td>3.9</td>
<td>99.2</td>
</tr>
<tr>
<td>DISAGREE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DISAGREE</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The stock market is becoming bullish

The stock market is a market that deals in the exchange of securities issued by public quoted companies and the government. The major role that the stock exchange has played, and continues to play in many economies is that it promotes a culture of savings. The fact that institutions exist where savers can safely invest their money and in addition earn a return is an incentive to people to consume less and save more.

The stock market is said to be bullish when prices are generally rising. 36.3 percent of the respondents disagree that the market is becoming bullish or the stock prices are generally rising.

Figure 4.6: The stock market is becoming bullish

- I receive adequate dividends for my investments

55.1 percent of the respondents feel that they do not receive adequate dividends for their investments as shown on table 5.
Table 5: Adequacy of dividends on investments

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid AGREE</td>
<td>28</td>
<td>21.7</td>
<td>21.7</td>
<td>21.7</td>
</tr>
<tr>
<td>NEITHER AGREE NOR</td>
<td>30</td>
<td>23.3</td>
<td>23.3</td>
<td>45.0</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>66</td>
<td>51.2</td>
<td>51.2</td>
<td>96.1</td>
</tr>
<tr>
<td>STRONGLY DISAGREE</td>
<td>5</td>
<td>3.9</td>
<td>3.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

In summary, majority of the responding shareholders invest in high earning companies and are affected by the kind of business the company does. The respondents also believe that share prices are not generally rising, that is, the market is not becoming bullish. However, majority of those who responded are neither satisfied with the current performance of their investments nor do they receive adequate dividends.

4.2.2 The extent to which financial risk affect investors’ attitudes

The following paragraphs explain the effect of financial risk on investors’ attitudes towards investment decisions. They include the safety of the stock market, market volatility and fear of losing money, trust as well as the future of the stock market.
The stock market is seen as a safe place to invest in as evidenced by investors’ responses in figure 4.7 below.

**Figure 4.7:** Safety of the stock market

- **Market volatility and losing money concerns me**

Investors are highly concerned about the volatility of the market and the fear of losing money. 89.9 percent are concerned, 4.7 percent are indifferent and 4.7 percent are not concerned about market volatility and losing money in making investment decisions.
Table 6: Market volatility and fear of losing money

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRONGLY AGREE</td>
<td>40</td>
<td>31.0</td>
<td>31.0</td>
<td>31.0</td>
</tr>
<tr>
<td>AGREE</td>
<td>76</td>
<td>58.9</td>
<td>58.9</td>
<td>89.9</td>
</tr>
<tr>
<td>NEITHER AGREE NOR DISAGREE</td>
<td>6</td>
<td>4.7</td>
<td>4.7</td>
<td>94.6</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>6</td>
<td>4.7</td>
<td>4.7</td>
<td>99.2</td>
</tr>
<tr>
<td>NOT APPLICABLE</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Trust in the stock market is on the decline

Investors have much trust in the stock market. 61.2 percent of the respondents disagree that trust in the stock market is on the decline. See figure 4.8.

Figure 4.8
• I invest in investments with short-term investment horizon

Investors are cautious about investing. 81.4 percent of those who responded invest in investments with short term investment horizon while 10.1 percent invest in long term. 8.5 percent are indifferent.

Table 7: Investment Horizon

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STRONGLY AGREE</td>
<td>12</td>
<td>9.3</td>
<td>9.3</td>
<td>9.3</td>
</tr>
<tr>
<td>AGREE</td>
<td>93</td>
<td>72.1</td>
<td>72.1</td>
<td>81.4</td>
</tr>
<tr>
<td>NEITHER AGREE NOR</td>
<td>11</td>
<td>8.5</td>
<td>8.5</td>
<td>89.9</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>12</td>
<td>9.3</td>
<td>9.3</td>
<td>99.2</td>
</tr>
<tr>
<td>NOT APPLICABLE</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

• The future of the stock market looks dull

Most investors believe that the future of the stock market is bright. 62.8 percent disagree that the market’s future is dull (Fig 4.9).
In summary, most respondents consider the stock market as a safe place to invest in and trust towards the same is on the increase. They also believe that the future of the stock market is bright. However, most investors are risk averse and invest in investments with short term investment horizon. They are concerned about the volatility of the market and fear of losing their money.

4.2.3 The extent to which informational needs affect investors' attitudes

Informational needs encompass the sources of the information, disclosure of the same by companies, services offered by financial advisers and brokers as well as investor education. The extent to which informational needs impact on investors attitudes are detailed is as follows:

- **Firms fully disclose all the information needed for investment decision**

58.9 percent of the respondents believe that the company discloses in the annual reports all the information needed to make investment decisions.
Figure 4.10: Firms fully disclose all information

- My financial advisers are always willing to respond to my investment issues

Approximately half of the respondents are indifferent as to whether their investment issues are responded to by the financial advisers.

Figure 4.11: My financial advisers are always willing to respond to my investment issues
I am satisfied with services received from my financial advisors/brokers

Investors’ satisfaction with broker / financial advisers’ services is low. Only 30.2 percent are satisfied with brokers’ services. 42.6 percent are indifferent and 27.2 percent are not satisfied.

Table 8: Satisfaction with broker services

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRONGLY AGREE</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>.8</td>
</tr>
<tr>
<td>AGREE</td>
<td>38</td>
<td>29.5</td>
<td>29.5</td>
<td>30.2</td>
</tr>
<tr>
<td>NEITHER AGREE NOR DISAGREE</td>
<td>55</td>
<td>42.6</td>
<td>42.6</td>
<td>72.9</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>33</td>
<td>25.6</td>
<td>25.6</td>
<td>98.4</td>
</tr>
<tr>
<td>NOT APPLICABLE</td>
<td>2</td>
<td>1.6</td>
<td>1.6</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>129</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

- Services provided by financial advisors/brokers are good value for money

More than half of the respondents (55.8 percent) agree that services provided by brokers are good value for money as shown on figure 4.12.
Figure 4.12: Services provided by brokers are good value for money

<table>
<thead>
<tr>
<th>AGREE</th>
<th>NO OPINION</th>
<th>DISAGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>55.8</td>
<td>30.2</td>
<td>14</td>
</tr>
</tbody>
</table>

- Securities industry should educate the public on good investments

Majority of the investors (98.4 percent) are of the opinion that the securities industry should be doing more to educate the public about how to make good investments (Fig 4.13).

Figure 4.13: Investor education

<table>
<thead>
<tr>
<th>STRONGLY AGREE</th>
<th>AGREE</th>
<th>NO OPINION</th>
</tr>
</thead>
<tbody>
<tr>
<td>64.3</td>
<td>34.1</td>
<td>1.6</td>
</tr>
</tbody>
</table>
My financial adviser keeps me informed about new investment opportunities

27.1 percent are usually well informed about their investment opportunities, 23.3 percent are indifferent while 49.6 percent are not.

Table 9: Well informed about new investment opportunities

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGREE</td>
<td>35</td>
<td>27.1</td>
<td>27.1</td>
<td>27.1</td>
</tr>
<tr>
<td>NEITHER AGREE NOR DISAGREE</td>
<td>30</td>
<td>23.3</td>
<td>23.3</td>
<td>50.4</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>61</td>
<td>47.3</td>
<td>47.3</td>
<td>97.7</td>
</tr>
<tr>
<td>STRONGLY DISAGREE</td>
<td>3</td>
<td>2.3</td>
<td>2.3</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

I consider myself fully knowledgeable on good investment decisions

Most of the investors are not fully knowledgeable on good investment decisions as shown on table 10.
In summary, though the services provided by financial advisers are a good value for money, a large proportion of the investors feel that the securities industry should be doing more to educate the public about how to make good investment decisions.

4.2.4 The impact of the economic environment on investors’ attitudes

- The state of the Kenyan economy affects my decision to invest

Though the economy is presumed to be growing, most investors are still worried about the state of the economy (see figure 4.14).
- I am concerned about upcoming presidential elections in regard to stock market investments

Table 11

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STRONGLY AGREE</td>
<td>11</td>
<td>8.5</td>
<td>8.5</td>
<td>8.5</td>
</tr>
<tr>
<td>AGREE</td>
<td>39</td>
<td>30.2</td>
<td>30.2</td>
<td>38.8</td>
</tr>
<tr>
<td>NEITHER AGREE NOR DISAGREE</td>
<td>13</td>
<td>10.1</td>
<td>10.1</td>
<td>48.8</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>65</td>
<td>50.4</td>
<td>50.4</td>
<td>99.2</td>
</tr>
<tr>
<td>STRONGLY DISAGREE</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
• 2007 will not be a good year for investment because of political climate

Investors are optimistic about the climate for investing in year 2007. 47.3 percent disagree that 2007 will not be a good investment year, 24 percent are indifferent and 28.7 percent are in agreement (see figure 15).

Figure 4.15

• Fees and commissions charged by my broker is reasonable

Since the Kenyan market is still developing and demand for shares seems high, majority of the investors simply invest whether the fee charged is high or low. Therefore, most of the responding investors are indifferent about the fees and commissions charged by brokers (see table 11).
Table 12: Reasonableness of brokers’ fees

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRONGLY AGREE</td>
<td>1</td>
<td>.8</td>
<td>.8</td>
<td>.8</td>
</tr>
<tr>
<td>AGREE</td>
<td>29</td>
<td>22.5</td>
<td>22.5</td>
<td>23.3</td>
</tr>
<tr>
<td>NEITHER AGREE NOR DISAGREE</td>
<td>94</td>
<td>72.9</td>
<td>72.9</td>
<td>96.1</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>3</td>
<td>2.3</td>
<td>2.3</td>
<td>98.4</td>
</tr>
<tr>
<td>NOT APPLICABLE</td>
<td>2</td>
<td>1.6</td>
<td>1.6</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>129</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

- **Satisfaction with the current performance of investments**

From the above findings, it is evident that investors’ satisfaction with the current performance of their investments is low. 43.4 percent of those who responded are dissatisfied, 20.9 percent are indifferent and 35.7 percent are satisfied with the performance of their investments (Fig 4.16).
It is also evident that investors' attitudes are affected by various factors such as earnings of the company as well as sources of information among others. These results are consistent with various researchers' findings such as Potter (1971) and Fisher and Statman (1997) among others. Their findings have been discussed in detail in the literature review.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This chapter recapitulates the major concepts of this research paper and summarizes the analysis and results obtained. The purpose of this project was to conduct a research on factors affecting investors' attitudes towards investment decision making. More specifically, the objectives of the study were to determine the extent to which company performance, financial risk, informational needs and economic environment affects investors' attitudes towards investing.

Behavioural finance, which is a new paradigm of finance seeking to supplement standard financial theories by introducing behavioural aspects to the decision making process provided the theoretical basis for the research. To achieve the objectives of this study, data was collected by use of the survey method which involved sending questionnaires to the respondents. The responses were analyzed through SPSS.

As earlier stated, capital markets are an essential part of modern economics and they drive savings mobilization. Shareholders are key players in the process. If capital markets can play an important role in savings mobilization, it is important to understand the factors behind the investors' attitudes towards them in order to undertake policies that elicit accumulation of savings through the market.

The results show that a majority of the investors who responded to the questionnaire invest in high earning companies and are affected by the kind of business the company does. They also consider the stock market a safe place to invest in. However, most respondents feel that they are
not fully knowledgeable about investment decisions. The results of the study tally with what is generally believed of investors that their investment decisions are affected by various factors. From a long term historical perspective investing in the equity market has been profitable and the understanding of the behavioural factors affecting this market can help to better understand its periodic unpredictability.

5.2 Recommendations

The findings of this study make an important point to financial advisers and brokers as well as to management of the stock markets. These parties should develop educational materials that are tailored to the investors needs. This is because investors’ investment decisions are affected by various factors and they are also not fully knowledgeable about investment decisions.

5.3 Areas of further study

A study should be undertaken on other factors affecting investors’ attitudes towards investment in financial securities. Since behavioural finance is a new discipline, more research especially in developing countries, should be carried out in order to better understand, investors behaviour.
## APPENDIX I

### STUDY BUDGET

<table>
<thead>
<tr>
<th>CORE ACTIVITIES</th>
<th>ITEMS</th>
<th>COST (KShs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation of literature</td>
<td>Library search</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Travelling and subsistence expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kshs 200 per day * 30 days</td>
<td>6,000</td>
</tr>
<tr>
<td>Designing and developing research instruments</td>
<td>Typing and photocopying of research instruments</td>
<td>4,000</td>
</tr>
<tr>
<td>Finalizing of research instruments</td>
<td>200 questionnaires</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(200<em>Ksh 50) + (200</em>3)</td>
<td>10,600</td>
</tr>
<tr>
<td>Main field data collection (2 months)</td>
<td>Travel and subsistence</td>
<td></td>
</tr>
<tr>
<td></td>
<td>One researcher</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ksh 300 per day * 60 days</td>
<td>18,000</td>
</tr>
<tr>
<td>Data processing, analysis and report writing</td>
<td>One researcher 1<em>Ksh 300</em>30 days</td>
<td>9,000</td>
</tr>
<tr>
<td>Contingencies</td>
<td></td>
<td>12,400</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>60,000</strong></td>
</tr>
</tbody>
</table>
APPENDIX II

INTRODUCTION LETTER

Mary Mwenga
Kenyatta University
School of Business
Accounting and Finance
P.O Box 43844
Nairobi - Kenya
14 September 2006

To..............................................

..............................................

RE: A QUESTIONNAIRE ON THE STUDY OF INVESTORS ATTITUDES TOWARDS INVESTMENT IN SECURITIES

I am a postgraduate student at the Kenyatta University pursuing a course leading to a Masters Degree in Business Administration (MBA).

Your have been selected to participate in this study purely on a random basis. Kindly assist by completing the attached questionnaire. The information obtained will be used for purely academic purpose and the findings of the study, shall, upon your request be made available to you.

I would like to assure you that the data obtained from this study will not be shared with a third party without your prior consent.

Any additional information or comment not captured by the questionnaire would be highly welcomed.

Thank you for your co-operation.

Yours Faithfully,

Mary Mwenga
C/O Kenya Airways Limited
P.O Box 19002 – 00501
Tel No. 6422322
Email No. Mary.Mwenga@kenya-airways.com
APPENDIX III

QUESTIONARE

INVESTORS ATTITUDE TOWARDS INVESTMENT IN SECURITIES

Thank you very much participating in this research study. Please read each question thoroughly and answer to the best of your knowledge.

Simply mark an X in the box next to your response.

Section A: General Information

1. Gender? Male □ Female □

2. Please chose your relevant age group
   Under 25 years □ 26-35 years □ 36-50 years □ 51 years and above □

3. What is your marital status?
   Single □ Married □ Divorced/Separated □ Widowed □

4. What is your employment status?
   Employed fulltime □ Employed – part-time □ Self-employed □
   Not employed □ Retired □

5. Please indicate your highest level of education
   Doctorate Degree □ Masters Degree □ First Degree □
   Diploma Certificate □ High School certificate □ Others (specify) □

6. What is your brokerage status?
   Do not have a broker □ Have one broker / financial adviser □
   Have two or more brokers / financial advisers □
**Section B: Investment related Information**

Please indicate the extent to which you agree with the following statements.

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td>I invest in companies whose earnings are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>The volatility of the market and fear of losing money is a major concern to me</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>My investment decision is affected by the kind of business the company is engaged in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>The State of the Kenyan economy causes me worry in making investment decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>The services provided by financial advisers / brokers are a good value for money</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td>I am satisfied with the services I receive from my financial advisers / brokers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>My financial advisers are always willing to respond to any investment related issues I have</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.</td>
<td>The stock market is a safe place to invest in.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>I receive adequate dividends for my investments.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>Trust in the stock market is on the decline.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
17. Company management discloses in the annual accounts all the information needed to make proper investment decisions

18. I think year 2007 will not be a good year for investments as a result of the political differences prevailing in the country.

19. The future of the stock market looks dull

20. I invest in investments with short term investment horizon

21. The securities industry should be doing to educate the public about how to make good investments

22. The fees and commissions charged by my broker is reasonable

23. I am satisfied with the current performance of my investments

24. My financial adviser keeps me informed about new investment opportunities
<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.</td>
<td>I consider myself as one who knows everything one needs to know to make good investment decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26.</td>
<td>I am concerned about the upcoming presidential elections when it comes to investing in the stock market.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27.</td>
<td>The stock market is becoming bullish</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you taking your time to complete this survey.
APPENDIX IV

INTERVIEW GUIDE

INVESTORS ATTITUDE TOWARDS INVESTMENT IN SECURITIES

Thank you very much participating in this research study. Please read each question thoroughly and answer to the best of your knowledge.

Simply mark an X in the box next to your response.

Section A: General Information

1. Gender? Male □ Female □

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   Under 25 years □ 26-35 years □ 36-50 years □ 51 years and above □

3. What is your marital status?
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4. What is your employment status?
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### Section B: Investment related Information

Please indicate the extent to which you agree with the following statements.

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td>I invest in companies whose earnings are high</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>8.</td>
<td>The volatility of the market and fear of losing money is a major concern to me</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>9.</td>
<td>My investment decision is affected by the kind of business the company is engaged in</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>10.</td>
<td>The State of the Kenyan economy causes me worry in making investment decisions</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>11.</td>
<td>The services provided by financial advisers / brokers are a good value for money</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>12.</td>
<td>I am satisfied with the services I receive from my financial advisers / brokers</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>13.</td>
<td>My financial advisers are always willing to respond to any investment related issues I have</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>14.</td>
<td>The stock market is a safe place to invest in.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>15.</td>
<td>I receive adequate dividends for my investments.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>16.</td>
<td>Trust in the stock market is on the decline.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
17. Company management discloses in the annual accounts all the information needed to make proper investment decisions.

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22. The fees and commissions charged by my broker is reasonable.

23. I am satisfied with the current performance of my investments.

24. My financial adviser keeps me informed about new investment opportunities.
25. I consider myself as one who knows everything one needs to know to make good investment decisions.

26. I am concerned about the upcoming presidential elections when it comes to investing in the stock market.

27. The stock market is becoming bullish.

Thank you taking your time to complete this survey.
APPENDIX V

REFERENCES


