

A Survey of the Factors Influencing Investment Decisions: The Case of Individual Investors at the NSE

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Abstract

Individual investments behaviour is concerned with choices about purchases of small amounts of securities for his or her own account. Investment decisions are often supported by decision tools. It is assumed that information structure and the factors in the market systematically influence individuals' investment decisions as well as market outcomes. The objective of the study was to establish the factors influencing investment decisions at the Nairobi Stock Exchange. The study was conducted on the 42 investors out of 50 investors that constituted the sample size. To collect data the researcher used a structured questionnaire that was personally administered to the respondents. The questionnaire constituted 28 items. The respondents were the individual investors. In this study, data was analyzed using frequencies, mean scores, standard deviations, percentages, Friedman's test and Factor analysis techniques. The researcher confirmed that there seems to be a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the for the average equity investor. The researcher found out that the most important factors that influence individual investment decisions were: reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance firms stock, price per share, feeling on the economy and expected divided by investors. The findings from this research would provide an understanding of the various decisions to be made by investors based on the prevailing factors and the eventual outcomes for each decision and would identify the most influencing factors on the company's investors' behavior on how their future policies and strategies will be affected since investment decisions by the investors will determine the company's strategy to be applied.

Key Words: Behavioural Finance, Investor Behaviour, Factors Influencing Investment Decision

1.0 Background to the Study

Investment decisions are made by investors and investment managers. Investors commonly perform investment analysis by making use of fundamental analysis, technical analysis and judgment. Investment decisions are often supported by decision tools. It is assumed that information structure and the factors in the market systematically influence individuals' investment decisions as well as market outcomes. Investor market behaviour derives from psychological principles of decision making to explain why people buy or sell stocks. These factors will focus upon how investors interpret and act on information to make investment decisions. Behavioural finance is defined by Shefrin, (2000) as "a rapidly growing area that deals with the influence of psychology on the behavior of financial practitioners". Individual investments behaviour is concerned with choices about purchases of small amounts of securities for his or her own account (Nofsinger and Richard, 2002). No matter how much an investor is well informed, has done research, studied deeply about the stock before investing, he also behaves irrationally with the fear of loss in the future. This different behaviour in the individual investors is caused by various factors which compromise the investor rationality. An individual investor is one who purchases generally small amounts of securities for his or her own account.

In conventional financial theory, investors are assumed to be rational wealth-maximisers, following basic financial rules and basing their investment strategies purely on the risk-return consideration. However, in practice, the level of risk investors are willing to undertake is not the same, and depends mainly on their personal attitudes to risk.

Research in behavioural finance has developed rapidly in recent years and provides evidence that investors' financial decisions are also affected by internal and external behavioural factors (Shefrin, 2000; Shleifer, 2000; Warneryd, 2001).

It is generally believed that investment decisions are a function of several factors such as market characteristics and individual risk profiles, in addition to accounting information. The disposition error shows that regardless of accounting information, investors are influenced by sunk cost considerations and asymmetrical risk preferences for gain/loss situations. The research findings by Nagy and Obenberger, (1994) which examined factors influencing investor behavior, suggested that classical wealth – maximization criteria are important to investors, even though investors employ diverse criteria when choosing stocks. Contemporary concerns such as local or international operations, environmental track record and the firm's ethical posture appear to be given only cursory consideration. The recommendations of brokerage houses, individual stock brokers, family members and co-workers go largely unheeded. Many individual investors discount the benefits of valuation models when evaluating stocks.

Hussein A. H, (2007) found that expected corporate earnings, get rich quickly, stock marketability, past performance of the firm's stock, government holdings, and the creation of the organized financial markets are the investors considerations. Dimitrios I. M, (2007) conducted a study on Investors behavior in the (ASE) and found that individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis and less on portfolio analysis. Market participants are exposed to a constant flow of information, ranging from quantitative financial data to financial news in the media, and socially exchanged opinions and recommendations. Processing all this information is a difficult task. Variables that are loaded heavily on this factor include coverage in the financial and general press, recent stock index returns, information obtained from internet, current economic indicators and recommendations by investment advisory services (Francis and Soffer, 1997). Each of these variables represents an outside source of information that is perceived to be unbiased.

Cohn et al. (1975) provided tentative evidence that risk aversion decreases as the investor's wealth increases, while Riley and Chow showed that risk aversion decreases not only as wealth increases, but also as age, income and education increase. LeBaron, Farrelly and Gula (1992) added to the debate, by advocating that individuals' risk aversion is largely a function of visceral rather than rational considerations. On the other hand, Baker and Haslem (1974) contended that dividends, expected returns and the firm's financial stability are critical investment considerations for individual investors , and Baker, Haargrove and Haslem (1977) went a step further by proposing that investors behave rationally, taking into account the investment's risk/return tradeoff.

This study examined the factors that appear to exercise the greatest influence on the individual stock investor, and included not only the factors investigated by previous studies and derived from prevailing behavioral finance theories, but also introduced additional factors generated through personal interviews that have been found to influence the stockholders' investment decisions in Kenya.

1.1 Statement of The Problem

In conventional financial theory, investors are assumed to be rational wealth-maximisers, following basic financial rules and basing their investment strategies purely on the risk-return consideration as the factors expected to influence investment decisions (Baker *et al*, 1977). Traditional economic theory assumes that people are rational agents who make decisions objectively to take advantage of the opportunities available to them. Investors think of themselves as rational and logical. But when it comes to investing, their emotional inclinations, ingrained thought patterns and psychological biases, color how they perceive the world and how they make decisions. The controversy of this area of study was the different findings that researchers came up with. For instance, Baker and Haslem, (1973) contended that dividends, expected returns and the firm's financial stability are critical investment considerations for individual investors. Potter, (1971) identifies six factors: dividends, rapid growth, investment for saving purposes, quick profits through trading, professional investment management and long-term growth that affect individual investors' attitudes towards their investment decisions. Merikas et al, (2003) found that individuals base their stock purchase decisions on; fluctuation in the price index, recent price movement in a firms stock, current economic indicators.

Investment decisions need to undergo a thorough analysis of the situations prevailing based on a number of factors, however regardless of the varied information available that justifies rationality and irrationality, investors are keen to avoid uncertainties associated with the ultimate decisions they engage in. It is against this background that this study sought to fill the gap by determining the factors that appear to influence the individual investment decisions, and included not only the factors investigated by previous studies and derived from prevailing behavioral finance theories, but also introduced additional factors that have been found to influence the stockholders' investment decisions in emerging local market, NSE.

1.2 Specific Objectives of the study

- i. To determine whether the factors related to self image/firm image coin-incidence have an effect on the behaviour of the individual investor.
- ii. To determine whether the factors related to accounting information have an effect on the behaviour of the individual investor.
- iii. To determine whether the factors related to neutral information have an effect on the behaviour of the individual investor.
- iv. To determine whether the factors related to advocate recommendation have an effect on the behaviour of the individual investor.
- v. To determine whether the factors related to personal financial needs have an effect on the behaviour of the individual investor.

2.0 Literature Review

This chapter explains the findings by various researchers on investment decisions. Behavioral finance, has achieved impressive strides in explaining the behavioral aspects of investment decisions. Behavioral finance investigates choice under uncertainty. Three major elements frame behavioral finance in Prospect Theory, regret aversion and self control. Each element captures behavioral attributes of individual investors. Empirical studies of the behavior of individual investors first appeared in the 1970s. Despite the importance of individuals' investment decisions, however, we know little about the factors that influence them. This review of the literature, therefore, concentrates on work involving both individual and professional investors. Individuals' investment behaviour has been explored through a large body of empirical studies over the past three or four decades. For example, Potter, (1971) identifies six factors: dividends, rapid growth, investment for saving purposes, quick profits through trading, professional investment management and long-term growth that affect individual investors' attitudes towards their investment decisions.

2.1 Theories of Investors' Behavior

2.1.1. Regret-Theory

It deals with the emotional reaction people experience after realizing they've made an error in judgment. Faced with the prospect of selling a stock, investors become emotionally affected by the price at which they purchased the stock. So, they avoid selling it as a way to avoid the regret of having made a bad investment, as well as the embarrassment of reporting a loss. Regret theory can also hold true for investors who find a stock they had considered buying but did not went up in value. Some investors avoid the possibility of feeling this regret by following the conventional wisdom and buying only stocks that everyone else is buying, rationalizing their decision with "everyone else is doing it" (Pareto, 1997).

2.1.2 Theory of Mental Accounting

It states that humans have a tendency to place particular events into mental compartments, and the difference between these compartments sometimes impacts our behavior more than the events themselves. An investing example of mental accounting is best illustrated by the hesitation to sell an investment that once had monstrous gains and now has a modest gain. During an economic boom and bull market, people get accustomed to healthy, albeit paper, gains. When the market correction deflates investor's net worth, they're more hesitant to sell at the smaller profit margin. They create mental compartments for the gains they once had, causing them to wait for the return of that gainful period (Thaler, 2001).

2.1.3 Prospect/Loss-Aversion-Theory

It suggests that people express a different degree of emotion towards gains than towards losses. Individuals are more stressed by prospective losses than they are happy from equal gains. An investment advisor won't necessarily get flooded with calls from her client when she's reported, say, a \$500,000 gain in the client's portfolio. But, you can bet that phone will ring when it posts a \$500,000 loss! A loss always appears larger than a gain of equal size - when it goes deep into our pockets, the value of money changes. Prospect theory also explains why investors hold onto losing stocks: people often take more risks to avoid losses than to realize gains. For this reason, investors willingly remain in a risky stock position, hoping the price will bounce back. Gamblers on a losing streak will behave in a similar fashion, doubling up bets in a bid to recoup what's already been lost. So, despite our rational desire to get a return for the risks we take, we tend to value something we own higher than the price we'd normally be prepared to pay for it. The loss-aversion theory points to another reason why investors might choose to hold their losers and sell their winners: they may believe that today's losers may soon outperform today's winners. Investors often make the mistake of chasing market action by investing in stocks or funds which garner the most attention. Research shows that money flows into high-performance mutual funds more rapidly than money flows out from funds that are underperforming (Kahneman and Tversky, 1979)

2.1.4. Over/Under Reacting Theory

It says that investors get optimistic when the market goes up, assuming it will continue to do so. Conversely, investors become extremely pessimistic amid downturns. A consequence of anchoring, placing too much importance on recent events while ignoring historical data, is an over- or under-reaction to market events which results in prices falling too much on bad news and rise too much on good news. At the peak of optimism, investor greed moves stocks beyond their intrinsic value (Hong and Stein, 1999).

2.1.5 Theory of Overconfidence

It says that people generally rate themselves as being above average in their abilities. They also overestimate the precision of their knowledge and their knowledge relative to others. Many investors believe they can consistently time the market. But in reality there's an overwhelming amount of evidence that proves otherwise. Overconfidence results in excess trades, with trading costs denting profits, (Tapia and Yermo, 2007).

2.2. Empirical Literature Review

2.2.1. The Neutral-Information

Kadiyala and Rau, (2004) investigated investor reaction to corporate event announcements. They concluded that investors appear to under-react to prior information as well as to information conveyed by the event, leading to different patterns. The behavioral finance literature has proposed two contradictory models of irrational investor behavior. In the first model, investors have a tendency to overreact to information, leading to a pattern of long-term return reversals when firms announce corporate events such as new issues of stock. In the second model, investors underreact to information, leading to longterm return continuations when firms announce corporate events such as open-market share repurchases or cash-financed tender offers. Behavioral models have been viewed with skepticism partly because they do not reconcile why investors seemingly overreact to a corporate event such as a seasoned equity offering, while seeming to underreact to an event such as a share repurchase. For instance, Fama, (1998) argues that behavioral models cannot explain the longrun abnormal return evidence since the overreaction of investors to some events and underreaction to others implies that, on average, investors are unbiased in their reaction to information. Loughran and Ritter, (1995) argue that investor overreaction explains the negative long-run abnormal returns following a seasoned equity offering (SEO), a conclusion based on the good past performance of firms announcing an SEO.

Ikenberry et al, (1995) argue that investor underreaction explains the positive long-run abnormal returns following a share repurchase, a conclusion based on the information conveyed by the share repurchase itself. Lack of evidence for a common behavioral explanation bolsters (Fama's, 1998) argument that, on average, investors are unbiased in their response to information. Merikas *et al.*, (2003) adopted a modified questionnaire to analyze factors influencing Greek investor behavior on the Athens Stock Exchange.

The results indicated that individuals base their stock purchase decisions on economic criteria combined with other diverse variables.

The results also revealed that there is a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behavior of active investors in the Athens Stock Exchange (ASE) influencing by the overall trends prevailing at the time of the survey in the ASE.

De Bondt *et al.*, (1985) published a paper about behavioral finance in which they asked the following question: “Does the stock market overreact?” the article gave evidence to support the hypothesis that cognitive bias (investor over-reaction to a long series of bad news) could produce predictable mispricing of stocks traded on the NYSE.

Phau and Poon, (2000) explain that a number of factors influence the choice between a retail store and in-home shopping methods, such as mail order, telephone order and the Internet. These influences include socio-economic and demographic factors, product type and distribution methods, perceived purchase risk, personal characteristics and traits as well as shopping or delivery time.

2.2.2 The Accounting-Information

Baker and Haslem, (1973) argue that investors are primarily concerned with expectations about the future, considering earnings projection and historical data to be of high interest to investors. On the other hand, research by Lee and Tweedie, (1975, 1976, and 1977) reveals that the general public faces problems in understanding financial reporting in the corporate sector. Blume and Friend, (1978) provide evidence that both price and earnings volatility are the primary measures of risk employed by individuals, while Schlarbaum *et al.*, (1978) compare individuals' performance with that of professional fund managers and find that the former exhibit considerable skill in their investment decision making. Lease *et al.*, (1974) describe individuals as “investors” rather than “traders” since they are long-term minded and give little interest to short-term yields. Moreover, Lewellen *et al.*, (1977) reveal that investors' main source of information is through fundamental or technical analysis. Antonides and Van Der Sar, (1990) argue that the perceived risk of an investment is lower if an asset has recently increased in value, consistent with (Blume and Friend's, 1978) findings.

Nagy and Obenberger, (1994) investigated the extent to which a listing of 34 variables influence shareholders' perception, and provide evidence of a role for a mix of financial and non-financial variables. Fisher and Statman, (1997), relying on general agreement that the investment decision is a complex one, suggest that investors are not only concerned about risk and return when buying shares, but also several other parameters taken into consideration.

2.2.3 The Self-Image/Firm-Image Coincidence

Epstein, (1994) examined the demand for social information by individual investors. The results indicate the usefulness of annual reports to corporate shareholders. Furthermore, a majority of the shareholders surveyed also want the company to report on corporate ethics, employee relations and community involvement. Behavioral models proposed by Daniel, Hirshleifer, and Subrahmanyam, (1998) and Hong and Stein, (1999) also predict short-run return continuations and long-run return reversals. Daniel *et al.* argue that informed investors are overconfident about the private signal they receive about a stock's value. Biased self-attribution reinforces their overconfidence when public information is in agreement with their private information. When public information is not in agreement with their private signal, biased self-attribution leads to dismissal of the information as noise.

2.2.4 The Advocate-Recommendation

The investor who already holds a stock may respond to an analyst recommendation in one of four ways: the investor may hold stock on a sell recommendation, the investor may sell stock on a hold recommendation, the investor may hold stock on a hold recommendation, or the investor may sell stock on a sell recommendation. Prior accounting research has examined how the type of analyst and the nature of the analyst report affect investor behavior, (Francis and Soffer, 1997). They found that because of the existence of incentives for analysts to issue favorable recommendations, investors weight other information in the analyst report more heavily when they observe a buy rather than a sell recommendation. This factor includes purchase recommendations from brokerage houses and individual stock brokers. Recommendations from friends or coworkers marginally loaded on this factor as well.

Malmendier and Shanthikumar, (2003) tried to answer the question: Are small investors naïve?

They found that large investors generate abnormal volumes of buyer-initiated trades after a positive recommendation only if the analyst is unaffiliated. Small traders exert abnormal buy pressure after all positive recommendations, including those of affiliated analysts. Krishnan and Booker, (2002) analyzed the factors influencing the decisions of investor who use analysts’ recommendations to arrive at a short-term decision to hold or sell a stock. The results indicate that a strong form of the analyst summary recommendation report, i.e., one with additional information supporting the analysts’ position further, reduces the disposition error for gains and also reduces the disposition error for losses.

2.2.5 The Personal-Financial-Needs

Prospect theory proposes that certain outcomes are overweighted relative to uncertain outcomes and that the value functions are different for gains and losses, (Shefrin and Statman, 1985); (Weber and Camerer, 1998). Rational logic suggests that when faced with a stock with unfavorable future expectations, individuals should sell the stock regardless of their current gain or loss condition. However, prior research on sunk costs and escalation of commitment shows that people can become stuck in losing courses of action even to the point of throwing good money after bad (Arkes and Blumer 1985; Brockner 1992; Staw and Hoang 1995). Thus, individuals may prefer to hold a losing stock and gamble on the future rather than selling and taking a sure loss and may even become more committed to holding the stock.

2.3 Conceptual Framework

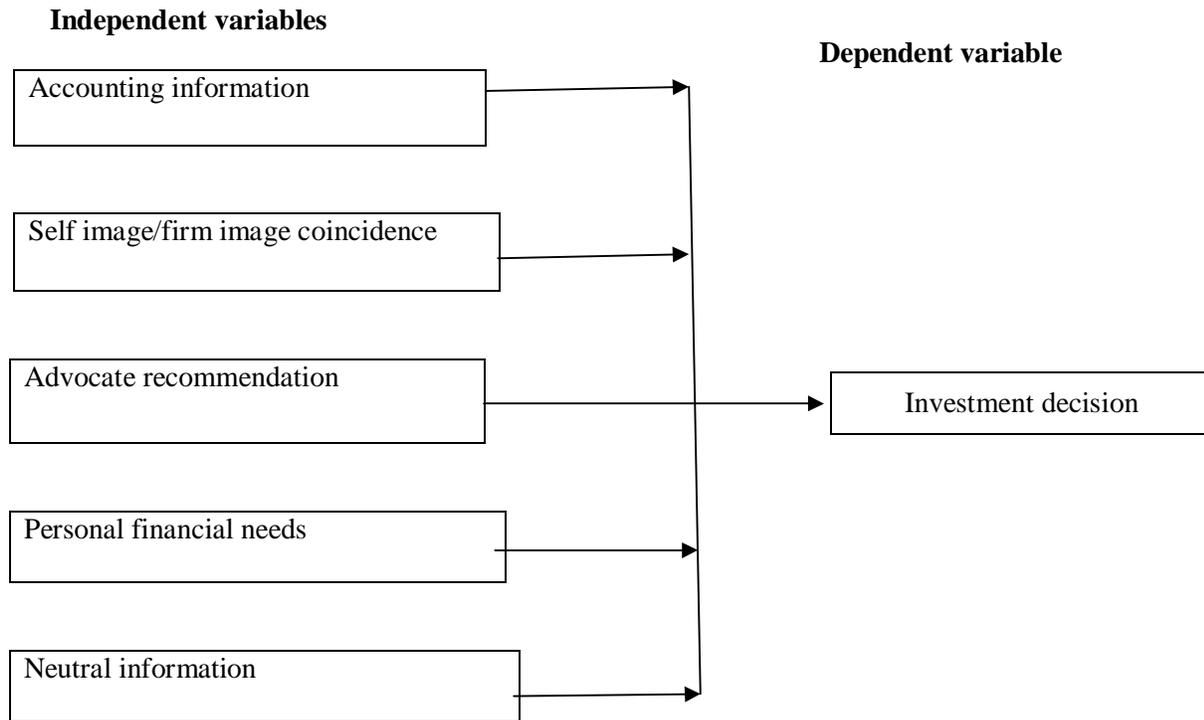


Figure 2.3: Source: developed for the study (2009)

3.0 Research Methodology

This chapter deals with how the research was designed and the methodology used to determine the factors influencing the individual investment decisions on the Nairobi Stock Exchange. The survey research design was adopted with a population of approximately 1.8 million investors from whom a sample of 50 investors was randomly selected for study. Primary data was collected using questionnaires (appendix i) which were examined by the researcher personally and collected data was coded and tabulated for analysis.

3.1 Research Design

The survey research design was used for this study. Mugenda and Mugenda (1999) notes that a survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about their opinion, attitudes, behavior or values.

This design was suitable for this kind of study because the researcher intended to collect data meant to ascertain facts investment decisions in Kenya. This kind of research methodology makes use of surveys to solicit investors informed opinion. It is often used to study the general condition of people and organizations as it investigates the behavior and opinion of people usually through questioning them (Cooper and Schindler, 2003).

3.2 Target Population

The target population of this study was all the investors drawn from NSE which are approximately 1.8 million. (Source: Nairobi Stock Exchange market report publication in December 2008).

3.3 Sampling Design and Sample Size

The names and addresses of investors from Nairobi were given by the brokerage firms. A simple random sample of one brokerage firm was selected from which 50 individual investors from it were randomly selected targeting one questionnaire each. Random numbers can be obtained using a calculator, a spreadsheet, printed tables of random numbers, or by the more traditional methods of drawing slips of paper from a hat, tossing coins or rolling dice (Neville and Sidney, 2004). The researchers study adopted the random number tables. Simple random sampling helps ensure that the sample represents the entire population, and is not biased or prejudiced toward any particular groups within the population. It also helps eliminate the tendency to select based on a basing factor (Cooper and Emory, 1995).

3.4 Data Collection Tools and Instruments

Primary data was collected using questionnaires (appendix i) which were examined by the researcher personally. The questionnaire items represented five categories: self-image/firm-image coincidence, accounting information, neutral information, advocate recommendation and personal financial needs. The questionnaires were administered to the individual investors personally. This method was appropriate since it encouraged prompt responses from the respondents. The questionnaire was structured into two sections. Section I sought to capture the general data (Bio-Data) about the investor. Section II was concerned with the data on factors that affect individual investment decisions. The developed questionnaire included items which corresponded to self-image/firm-image, accounting information, neutral information, advocate recommendation and personal financial needs. Respondents were asked to indicate their degree of how they are influenced by each of the items on five-point Likert scale.

4.0 Data analysis and Findings

Introduction:

This chapter deals with data analysis and interpretation of the research findings. The data in this study was coded and tabulated. The data were analyzed using descriptive statistics, Friedman's test and Factor analysis techniques with the help of SPSS package which enabled data interpretation and making of statistical inferences.

The chapter documents the factors that influence individual investment decision in NSE. Out of the fifty investors targeted, only eight investors were not reached to provide response. All the investors reached provided responses and therefore giving a response rate of 84%. The chapter is divided into two sections. Section I concerns the respondents' gender data, Section II concerns the factors influencing individual investment decision in NSE.

Test validity and Reliability

Reliability of the measures was assessed with the use of Cronbach's alpha. Cronbach's alpha allows us to measure the reliability of the different categories. It consists of estimates of how much variation in scores of different variables is attributable to chance or random errors (Selltzm, *et al*, 1976). As a general rule, a coefficient greater than or equal to 0.5 is considered acceptable and a good indication of construct reliability (Nunnally, 1978). The overall Cronbach's alpha for the five categories which is 0.745.

The Cronbach's Alpha for the five categories, namely, self-image/firm-image, accounting information, neutral information, advocate recommendation and personal financial needs is 0.503, 0.805, 0.648, 0.775 and 0.722 respectively

To assess the scales' content validity, the researcher asked six experts, three academicians and three practitioners, to examine it (Devellis, 1991). Accordingly, the researcher made changes on the first draft in terms of eliminating, adding or rewording some of the items included in that draft.

Factor Analysis: Factors Summaries and Component Grouping

Factor analysis was performed on the results of the importance attached to each of the factors influencing individual investment decision in NSE. Initially, correlation analysis was run to check for interdependence among the factors after which Principal Component Analysis (PCA) was run. From the correlation matrix in Appendix iii, the correlation coefficients are more close to one meaning that there is a relationship between the variables. The purpose of performing PCA was to transform a set of interrelated variables into a set of unrelated linear combinations of these variables in to a set of uncorrelated linear combinations. Varimax rotation together with Kaiser Criterion was used to classify and reduce the factors to interpretable components.

The communality is the squared multiple correlation coefficient for variables using the factors as predictors. The communality measures the percentage of variance in a given variable explained by all the factors jointly and can be interpreted as the reliability of the indicator. It is the proportion of variance that each item or variable has in common with other items. For instance, 86.6% communality is the highest variability in the factor "Development in stock index", while as the lowest variability was captured for the factor "Information from internet" with a communality of 59.4%.

A total of 9 components were extracted from the factors. The components are orthogonal to one another, meaning they are uncorrelated. For a component to account for at least one variable, it should have an Eigen value (the sum of squares of its factor loadings) of at least one. This is the cut off point for determining the number of components to be extracted with maximum or near maximum loadings. Component 1 explains the highest observed variance followed by component 2 and so on. From the table, component 1 accounts for 15.202% of the total observed variability while component 2 explains 14.785%, component three 12.155%, component four 8.316%, component five 6.349%, component six 4.983%, component seven 4.435%, component eight 4.289%, and component nine 4.021%. The nine extracted components explain 74.535% of the total variability for all the 28 variables.

The rotated component matrix that was used to extract independent variables highly related to particular components was performed. Orthogonal Varimax rotation together with the Kaiser Normalization was used to force the entries in the initial factor to be near 0 or 1. Such loadings show more clearly which variables go together and thus easily interpretable. The final matrix represents both a pattern and a structure matrix. The coefficients in the rotated matrix indicate both the correlation coefficient and the regression weights.

Factor selection

The rotated matrix indicates both the correlation coefficient and the regression weights. Component 1(Firms position and performance) consists of Firms status in industry, Price per share and Past performance of firm's stock. Component 2 (Investment returns and economic conditions) consists of Dividends paid, Expected dividends by Investors, Development in Stock Index, Current Economic Indicators, Recent Price Fluctuation and Attractiveness of nonstock. Component 3 (Diversification and loss minimization) consists of Price per share, Attractiveness of non-stock, Need for diversification, Ease of Obtaining funds and Minimizing risk of loss.

Components 4 (Third party opinion) consists of Family member opinion, Friend recommendations and People Opinion on the stock. Component 5 (The goodwill of the firm and accounting information) consists of Reputation of the firm, Expected Corporate Earnings and Profit and condition of statements. Component 6 (Perception towards the firm) consists of Perceived ethics of firm and Firms involvement in Community. Component 7 (Environmental factors) consists Coverage in the Press and Statement of Government officials. Component 8 (Firms feeling) involves of feelings for a firm. Component 9 (Risk minimization) involves Minimizing risk of loss.

The factor loading heavily on a particular component should have the greatest corresponding value entry across all the nine components in the rotated component matrix.

The first two components clearly indicate that the most important factors influencing individual investment decisions in NSE relate to firms position and performance, and investment returns and economic conditions. Friedman rank test was performed which assigns weights based on the degree of importance of factors (i.e. most important to least important). The factors that were identified and ranked were classical wealth maximization criteria, such as the “reputation”, “firms status in industry”, “expected corporate earnings”, “profit and condition of statements” “past performance of firm’s stock” and “expected dividend by investors”. This is consistent with the findings of Merikas *et al.*, (2003).

5.0 Conclusions and Recommendations

Introduction

The objective of this study was to identify the factors influencing individual investment decisions in NSE. This chapter presents the summary, discussions and conclusions from the research findings as per the objective of the study. Based on the findings of this study, recommendations have been given on the factors influencing individual investment decisions in NSE. The limitations of the study as well as suggestions for further research have also been discussed.

Summary, Discussions and Conclusions

The study was conducted on the 42 investors out of 50 investors that constituted the sample size. To collect data the researcher used a structured questionnaire that was personally administered to the respondents. The questionnaire constituted 28 items. The respondents were the individual investors. In this study, data was analyzed using frequencies, mean scores, standard deviations, percentages, Friedman’s test and Factor analysis techniques.

The objective of the study was to identify the factors influencing investment decisions in NSE. Results of factor analysis revealed that the most important factors were: Firms position and performance; Investment returns and economic conditions; Diversification and loss minimization; Third party opinion; The goodwill of the firm and accounting information; Perception towards the firm; Environmental factors; Firms feeling and Risk minimization.

Friedman’s ranking was used to identify the most important individual factors that influence investment decision in NSE. The factors were reputation of the firm, firm’s status in industry, expected corporate earnings, profit and condition of statement, past performance firm’s stock, price per share, feeling on the economy and expected dividend by investors.

In conclusion this study tested the tenets of the behavioral finance theory on the factors that influence investment decisions under conditions of uncertainty. The analysis performed on the data collected appears to give a fairly accurate view of the average equity investor in the NSE. Experienced and knowledgeable investors would readily admit that the structure and relative weights of the chosen categories reflect on the average, a still unsophisticated and immature investor profile. The results revealed by our sample of 50 respondents confirm that there seems to be a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behavior of active investors in the NSE influenced by the overall trends prevailing at the time of the survey in the NSE.

Policy Recommendations

The researcher recommends that the investors need to analyze the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market. They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns.

Suggestions for Future Research

This study examined the factors that appear to exercise the greatest influence on the individual stock investor, and included not only the factors investigated by previous studies and derived from prevailing behavioral finance theories, but also introduced additional factors generated through personal interviews that have been found to influence the stockholders’ investment decisions in Kenya.

First, future research should attempt to explain the relative importance of decision variables have for individual investors making stock purchase decisions, Secondly, the study was conducted to investors in Nairobi. The findings can be verified by conducting the same study in the rest of the country, and thirdly, whether there are homogeneous clusters or groups of variables that form identifiable decision determinants that investors rely upon when making stock investment decisions.

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