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Factors Affecting Investment Decision in Portfolio Management a survey of the listed companiesin Nairobi Securities Exchange

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***Abstract**: the purpose was to investigate the factorsaffecting investment decisions in portfolio management for the listed companies and market participants in Nairobi securities exchange. Sixty four companies were listed at the NSE and 19 market participant in NSE. It was motivated by the observed key investment decisions in Kenya in recent years as well as the need to understand the behaviour of investment advisers in Nairobi Security Exchange market and the factors that influence their investment decision. The study was carried to investigate the rationale used by investment advisers in designing a given portfolio mix. The theoretical anchor was modern portfolio theory. The theoryhelped to understand investment decisions in portfolio management, based on the amount of risk in which individual is willing to take. Relevant literature was identified and organized in themes of the study variables to make questionnaires which were used to conduct the investigation. Random sampling technique and purposive technique were used to obtain a sample of 62(out of 83) investment advisers and managers to be used in this study. These techniques were considered most power tools that give the required investment advisers and managers of the listed companies and market participantsan equal chance at the NSE. A logistic regression was used andhypotheses were tested at significance level of 95%.The data collected was analysed usingdescriptive design technique in analysing the various factors influencing decision in portfolio management.The resultsfrom factors which were influencing the investment decisions on portfolio management were obtained which indicate that many people are receptive about risk. The more risk mean more gain and the reverse is true. Also investor prospect significantly affect decision because many people may prepare short term investment due to the pressure to meet immediate demand.It was considered as a reasonable assurance from these knowledgeable advisers who had financial market informationthrough share price analysis, future financial security valuation, and recommendations from stock brokers that stock market investors should always carry out individual stock risk analysis before committing any resources to such investments because once an investment decision is adopted, then it's very hardto offset risk using of given assets without incurring huge losses. Hence to avoid such uncertainty, thorough consultative advice must be sought from fund managers and stock brokers for investment benefits.*

***Keywords**: Investment Decision, listed Companies, Risk involved, Return on the Investment.*

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I. Introduction

The main reason for creating a portfolio is to combined different asset with different risk and return compared to investment in just a single asset with higher return and high risk. Assets under pool carry an advantage of reducing a risk and achieving a higher return (Johan 2012)

NSE/NCFM report (2010), Institutional investees are largest active actors in the financial market framework. These investees are companies who act on behalf of investors such as individual investor and other institutions. Assets management needs professional skills from fund managers who got management skills in combining right portfolio mix and put it into the right investment. The main example of such institutional investors are mutual fund, hedge funds, pension funds, insurance companies, endowment funds, financial institutions, private equity and other capital firms.

The investment which mature after 5 years and above, such as pension investment, experiencing losses for the mean time and adjusting later for better opportunity to reduce incurred losses in log run equilibrium. However, this investment is not feasible strategy for those who need income for consumption and liabilities (John 2012)

A research done in Nairobi stock Exchange revealed that there is existence significant relationship between a certain risks over a given returns. Investees are trying to gauge the magnitude and impact of certain risk over and over again before they venture to exploit such arbitrage opportunities arise over time. Careful analysis is taken into consideration and precautionary measures are taken from professional managers with periodical prediction of market movements which help them to precisely estimate market anomalies and their effects (NSE/NCFM 2010)

A well-constructed portfolio management strategy is geared toward the investor's financial target and need during the investment selection until final execution of such investment. According PWC (2012) report investeecompanies which may perform better at portfolio management normally finish their project on time and under budget while aggregating return on investment (ROI). A portfolio management involved skills of crafting and designing given assets with certain risks at the given return (NSE/NCFM 2010). This professional skill needs good portfolio governance and financial discipline from financial expertise and reasonable experience over the market.

In Kenya, Capital markets is an equity and bond market where investment companies and the government can raise long term funds i.e. for longer than one year. The government recognizes the potential of using the capital markets to mobilize funds to finance long term investment and development projects in key areas such as developing the transport system. This has led to the setting up of the Capital Market Authority.

In Kenya, research done by (Ambrose J and Vincent S, 2014), investment decisions are made by investees managers. Investees commonly perform investment analysis by making use of fundamental analysis, technical analysis and judgment according toInternational Journal of Humanities and social science, (2014). Investment decisions are guided and pegged against a certain tools. These tools are based on how the market information's structure and market driving factors which can influence investor's decisions. Risk-return analysis is carried out throughout the investment phase and critically brings in the element of the risk involved to particular portfolio.

Statement of the problem

The management of assets required management skills from professional fund managers who are the largest active group in the financial market. Due to lack of knowledge from an investor, he or she may seek independent advice and management skills from professionals who possess some necessary expertise to keep custody and manage their funds within a given period and stipulated guidelines for delivering such services based on the need of the investor.

The most striking problems faced by NSE is it operation on trading decision for the securities with insufficient desirable characteristics of stock exchange market. These securities are faced by liquidity problem, non-availability of information which led to market anomalies. However, these led to high price sensitivity to new market information, price fluctuation and narrow price spread. Senbet L. and Otchere I. (2008), argued that despite the robust establishment of stock exchange financial market in Africa, the financial market still lag behind and remained thin and illiquid with South Africa and North Africa are exceptional. NSE is illiquid market due to the low exchange of shares from one investor to another. This irrational market is caused by lack of active market participants in one hand and many investors do not buy and sell some of their shares in actively on other hand.

According to Bencivenga and Smith (1991), stock which are liquidreduces the downside risk and the cost of investing in some projects that do not break even for a long time. They postulated that, should the stock market be liquid,primary investors would not lose access to their savings during the period of investing. This is so becausethey can conveniently, quickly and/oreconomically sell their holding securities. As of present, NSE listed 64 companies as well as 19 market participants. This number is quite low in comparison with the grand population of over forty (40) million people. Insufficiency of trained and competent personals in Financial Market is a big setback for the NSE. It derails the development of the Stock Exchange Market. This comes in as the result of experts become inadequate to unify the service demanded by the many investors in the market. On the other hand, experts determine the quality of services offered to clienteles in the Stock Exchange and Capital Markets. The categories of these experts may comprise of stock analysts, financial analysts, lawyers, licensed brokers and professional financial advisors.The problems faced by investors are the driving trigger of this study from a Kenyan perspective. The study should establish the factors that affect investment decisions in portfolios Management of listed companies in NSE. These factors are not available to many investment managers. They hardly haveknowledge of well-constructed portfolio design to fit the need of many investors.

General Objective

The main objective of this study is to determine the factor affecting investment decision in a portfolio management for the listed companies in Nairobi Stock Exchange.

Specific Objectives

To determine the influence of risk tolerance level on investment decision in portfolio management among companies listed in Nairobi Securities Exchange

Research Hypothesis

1 H0: There is no statistical relationship between risk tolerance level and the investment decision in Portfolio management among companies listed in Nairobi Securities Exchange

Significance of the Study

The outcomes of the study may be beneficial to the individual investors and institution investors as well as portfolio managers who are the decision makers on comprehensive portfolio management strategy

Scope of the Study

This study was conducted for the companies listed in Nairobi Security exchange.It was conducted during the period of September 2016 to January 2017. The research focused on fund managers and security advisors who make investment decisions portfolio mix.

Limitations

The respondents were feeling uncomfortable to give information that may be part of their market competitive advantage. The people in authorities were asking questions concerning about the usage of the information before granting the permission to the researcher to access their areas of jurisdiction as some information were part of their competitive advantage. To curb some of issues, researcher reassured respondents and concernedauthorities that the study would be used purely for the academic purposes and confidentiality of their responses was guaranteed.

Assumptions of the Study

The researcher assumed that the research sample represents the characteristics of the population and the respondents would give true information to the best of their knowledge.

II. Literature Review

2:1 Introduction

It deals with theoretical literature review, empirical review, conceptual framework and operational framework. Literature review aims at identifying and locating relevant sources of information that was used to develop and strengthen the current research study. It would provide an understanding of previous relevant contributions to the current problem and help identify the research gaps in order to refine research topic more clearly and avoid duplication of information.

Modern Portfolio Theory

Markowitz (1952), who advanced portfolio theory deals with the difficulty faced in constructing collection of assets in order to create a given portfolio with desirable characteristics. A diversity of many assets characteristics may be put into consideration before designing a desirable portfolio. These asset characteristics include asset value, asset return and riskiness of reaping such return compared to asset beta. The financial need of a given investor and risk factor determines what type of a portfolio is considered viable for investment as well explained by Simon Hubbert, and Bodie, Kane and Marcus (2012), Finance-Mean Variance Analysis theory.

The main notion that any investor should be aware of is the positive linear relationship between the risk and return of a financial assets. It is obvious knowledge from the previous research that investment analysis should be done in order to study linearity involved. This means that when the risk of an asset increases, its return also increases. This marginal risk taken by investor is expected in one way or other tocompensate an investor with higher return. Investor should be aware of this significant fact that if an investor wants to improve the expected return of the given investment, he/she must be ready to take more risk because such positive relationship exists in the financial market. A deep understanding of risk-return relationship between a given portfolios is crucial in the modern portfolio theory.

Empirical Review

The primary factor that this theory considers is a financial interest in which an investor wants. If an investor desires larger financial return, he/she must be willing to take more risk as the attached expected return acts as an incentive. This notion is term as a 'risk premium' which rewards an investor for accepting an additional risk. It is sometimes notice in this theory that if two assets exhibited similar expected return, in other word there is no 'risk premium', an investor would comfortably select asset with smallest variance (least risk). Therefore, risk premium plays a very fundamental role for any investment decision which needs to be adopted by investees for certain investment arena.

Sjøntoft makes a crucial suggestion that investing in assets with higher variance is one way of achieving higher returns but as these returns always result in higher risk and investing in low variance stock with low expected returns is an unwise investment decision. The reason behind any investment is to reap a certain return to motivate investors to re-invest his/ her money and get compensated.

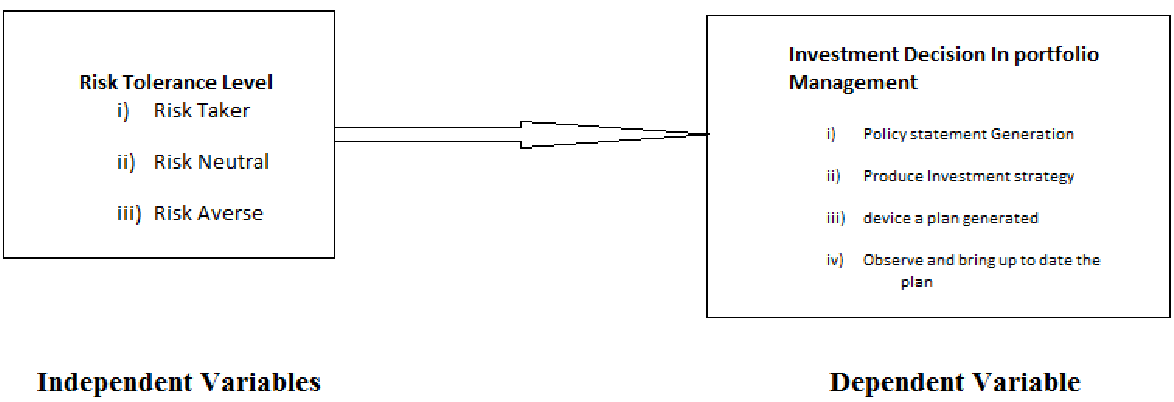
The MSCI Denmark makes it as an impossible strategy to outperform in term of realize return but relatively low expected return on a given investment. Therefore, an investment constitutes an equally very successful investment tools with regards to adding portfolio value, with the condition that low return are warranted by corresponding low market risk. Many early writers like CausVorms make some comments concerning portfolio construction and value added stem from selecting stocks with dissimilar levels of systematics risk, hence different levels of return. However, based upon the data input, a portfolio constructed should carry systematic risk at a level justified by realizable return. The portfolio selection is determined by the investment opportunities around the circumstances.

It has shown from the theoretical review that one fundamental component of prospect theory is assumption regarding people's despondency regarding losses is higher than their despondency regarding gains. This is main notion concerning disposition effect. The vale-function also shows similar effect that many investors are more negative towardtheir losses in relation to their gains. Rabin (1998)endorses disposition effect when he proposed that people prefer the status quo when change to decisions may eventually bring some losses. This idea in turns results in frame dependence issue which is also known as loss aversion. Godoi et al. (2005) carried out a qualitative study in which more interest was put in loss aversion in an investor's world. The outcomes indicated that the feeling of making loss is socially imbedded and that it's manifested in real life experiences through familiarity, guilt, risks and losses, rationalization, fear, anguish and most importantly loss aversion.

Theoretical Framework

This study is based on the Modern Portfolio Theory which is geared toward portfolio creation. The problem imbedded in constructing a portfolio of a given collection of assets with required characteristic is difficult. The main idea this theory considers is a financial interest of an investor and his/her ability to tolerate a given risk in achieving such interest.

Conceptual Framework



III. Research Methodology

Introduction

This chapter presents in detailsthe research descriptions used to accomplish this research objective

Research Design

The study involved a descriptive survey research design and ex post Facto research design/ quasi-experimental because the focuses are not arbitrarilyallocated and are clustered based on a specific characteristics. This method is considered to be an effective way of collecting data instrument from a large number of resources and relatively cheap. This type of research is a methodicalexperimentalquery in which the scientist does not hold control over the independent variables because their appearances have already occurred or because they are inherently not manipulatable.

3.1 Target population and study population

The target population consist of all 64 listed companies and 19 market participants in Nairobi Security Exchange. The requirement is met by taking sample from each companyfor either portfolio managers or investment advisers.

Sample size required:

$n_{f} = \frac{n}{1+(\frac{n}{N})}$

Where n_{f} = the desired sample size(when the population is less than 10,000)

n = the desired sample size (when the population is more than 10,000)

N = Estimate of the population size

If n = 249

N= 83

$n_{f} = \frac{249}{1+(\frac{249}{83})} = 62$ investmentadvisers and managers

Sampling procedures and sampling size

The sample frame formula was used to get the desired number of investment advisers and portfolio managers. And based on sampling calculation, a total of 62 managers and investment advisers were given questionnaires for the study.

Data collection Instrument

Information was collected using of questionnaires. The questionnaires consist of both open and closed ended questions and likert scale questions. These questions were developed in line with the research objectives.

Validity Test of the instrument

The validity test was assured by the use of questionnaires which comprised ofprudentlybuilt questions to avoid vagueness and in order to ease answers to all the research questions. The researcher carried out a pilot test through a sample of 10 respondents beforehand the real study take place, after which a necessary rectifications andchanges were done to ensure validity.

Reliability Test

The consistency of measure for this study was done by use of Cronbach Alpha, a reliability coefficient that indicates how well the items in the data collection instruments were positively correlated to one another. It was mainly concerned with establishing whether the questionnaire's content accurately reflect the normal processes in the information centers. The test re-test method was used. This test re-test is where an investigation was done at a time and again later so that the same result can be gotten.

Data analysis

The collected data was processed and analysed using statistical software. The data collected was checked to ascertain that it is completed before it was organized and summarized by the researcher. All the data were edited before compiling. Coding was done to ensure thateach question is answered; the answers were recorded properly checked to verify whether the instruments were complete in order to use the appropriate statistical tool, orotho. Logistic Regression Model was used in analysing the factor influencing investment decisions.

IV. Data Analysis, Presentation And Interpretation

Introduction

The study employed statistical package for social sciences (SPSS) in data analysis. In the analysis of the data, information is presented in form of pie charts, tables, frequency and percentage.

Response Rate

The researcher distributed a total of 62 questionnaires which was the sample size of the study. Those who participated and returned the questionnaires were 56 in number (90%) while 6 participants (10%) did not respond to the questionnaires. The 90% response rate was found to be significant to carry out the analysis by the researcher as shown in table 4.1.This formed a large percentage of 100%. Nzuve (2007)asserts that 70 percent of the sample members are sufficient to represent the population thus leading to a generalization of the study findings. 90 percent was therefore deemed acceptable and sufficient.

Respondents Description
Demographic data show number of males who actively participating in NSE and the gender representation of listed firm's portfolio management.

Gender of the respondents
Most of the respondents were males. They occupied 78% of the total respondents. Females were 22% of the respondents. Deeper enquiry revealed that the gender representation of listed firms' management was important because many decision made by male are more trusted by many people as one of the psychological errors many investors made. However, female investment advisers are equally important and give the same services as well as their male counterpart.

Age of the respondents
All the respondents were distributed in groups of different ages as follows; Most of the respondents were in the age bracket of 41-50 years with a representation of 54% who are major decision makers. Many investors trusted information giving by an old person. This is because people look at age as sources of experiences and individual may conclude that such information is viable and considered less risky. Market sometimes may not act in accordance with investors' expectation and may behave in opposite side of the expectation. Investment decision which is reliable may not be necessarily made by an old person as intelligent and market prediction does not correlate with age of the person. Hence good investment decision is a matter of proper analysis of market parameters a3nd keen observation of a person regardless of his/her age.

Respondent's years of Experiences
By looking at the experience of respondents, it becomes visible in mind of researcher that the experiences matter a lot in order to form conclusive decision concerning portfolio management. Majority of the respondents had experience of more than 15 years. This was expected because leadership of a publicly trading firm requires a wealth of experience. The more experiences someone gained, the more confident decision someone should make as such decision results from previous encounter.

Risk tolerance level
Risk tolerance is a major factor study and was analysed using fivelikert scale questions to measure a degree of individual attitude toward risk which is categorised into three; Risk taker, Risk Neutral and Risk Averse. A question on what other people refer to the respondent on his appetite for risk was posted to the respondents and many investors projected their risk on portfolio and return before they invest so that risk trade-off which compensates the investors for taking the higher risk in the market. All investors in NSE must link certain risk and return in market as basis of making their decision on which type and nature of portfolio is desirable with given risk

From the analysis, good investor is risk taker and most of the responses lie between strongly agree and agree totalling to 70.51% which mean that risk cannot be entirely eliminated but should be part of the investment decision and an investor's is compensated for taking more risk in the market. Risk avoidance investors are part of the market movement and they are always nervous about investment associated with risk and best they can do is to defer current investment for future investment.

Hypothesis Test
The hypothesis on Risk Tolerance wasrejected at 5% significance level. The p value was 0.016 which was less than 0.05. Therefore, risk tolerance had significance influence on theinvestment decision in portfolio management.The basic idea which must be critical looked and put into consideration is the concept of the relationship of risk and return of any financial asset. It has become predominantly in the financial market that there is positive linearity between the risk and return. If an asset beta increases, also it return normally moves in the similar direction. This mean that the more an investor take marginal risk, the more its warrant a similar return, though not always necessarily equal to the amount of risk taken. If an investor risk appetite is higher, there must be a premium return in reward of the risk taken to compensate investor for taking more risk.

V. Summary Of Findings, Conclusions And Recommendations

Introduction
This chapter presents the summary of findings, conclusions drawn from the analysis and the recommendations by the researcher. Areas for further research are also highlighted.

Summary of the Findings

Risk Tolerance Variables

Risk avoidance investors are part of the market movement and they are always nervous about investment associated with risk and the best they can do is to defer current investment for future investment. All investors in NSE must link certain risk and return in market as basis of making their decision on which type and nature of portfolio is desirable with given risk .This means that the individual investors areinclined to get better investment advises from most experienced market participants and would rely on those experienced advisers who made investment decisions.

Conclusions

Most investors suffer losses because they do not take time to carryout individual stocks risk analysis. After obtaining high profits/ returns on investments, most investors are ready to take up more risky ventures at ease leading to unprecedented losses. Investors, who do not concentrate on portfolio creation to mitigate on risks, suffer losses more often than those who created well balanced portfolios. Investors are quick to sell winning stocks end up losing in the long run. Overreaction to stock price changes leads the investors to commit investment errors because price changes in real time/ in a matter of minutes thus the investors have no time to make informed decisions. Majority of the investors do not take time to find all information but instead they rely on current and past information. Market anomalies are hard to exploit unless with a very experienced and informed stock managers.

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