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Research Paper

Determinants Of Investor Sentiments Among Private Investors In Nairobi Securities Exchange

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ABSTRACT:*Investor's behaviour in the market is usually influenced by many factors. These factors determine choice to either purchase (investment) or sale off (disinvestment) financial assets or instruments. Subsequently, this impacts prices and/or value of investment. Behavioural finance is one of science that try to elaborate why investors forms a given belief in the market. The current study sought to examine the influence of individual factors, regulatory framework, and market factors on investor's sentiment. Descriptive analysis was adopted. Primary data was collected through use of structured questionnaires. Data was analysed using descriptive, regression and correlation analysis. Results of the study revealed positive and significant relationship between individual factors, regulatory framework, market factors and investor sentiment.*
KEY WORDS: *Individual factors, Regulatory framework, Market factors and investor sentiment.*

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I. BACKGROUND OF THE STUDY

Investor's behaviour in the market is usually influenced by many factors. These factors determine choice to either purchase (investment) or sale off (disinvestment) financial assets or instruments. Subsequently, this impacts prices and/or value of investment. Behavioural finance is one of science that try to elaborate why investors forms a given belief in the market. Investor's sentiments refer to the perception and belief by investor of choosing to invest in variety of securities (Sindhu, Anil, Kalida & Iaeme, 2014). Moreover, Thorp (2004) interpret sentiment as sums of expectation expressed by a group or an individual. As measure of expected future yield, investor sentiments can be counterintuitive on individuals' actions. This is because the investment decisions affect many investors (Chang, Yu, Reinstein & Churyk, 2016).

Proponents of the Efficient Market Hypothesis (EMH), Malkiel and Fama (1970) demonstrated that the value of securities in the market tends to fall the publicly available information. Scholars such as Shiller (2003) have documented dissatisfaction with efficient market model since no study has been carried so as to link the market prices changes with subsequent fundamentals. In fact, some companies have continued to report losses yet their stock prices have remained high for a long duration (Chang et al., 2016). A challenge to the EMH is how psychological and behavioural concepts continue to influence stock price changes.

Over the years, surveys have shown that markets received a lot of interesting investor's attitudes. In spite of long period of companies making losses, investors hope for the prospective returns has not gone down significantly. As an alternative to rebalancing portfolio, investors have continued to cling on the same assets in the hope that there would be a positive reversal in the present financial figures. A bullish level of sentiment leads investors to making more investment depending on individual optimism, ability and confidence level (Jayaraman, Vasanthi & Ramaratnam, 2014). For sure some investors attribute their sentiments to performance of the market at given situations.

Change in value of assets in the past has been found to defy the explanation of efficient market where market bubbles and price fluctuations with the information available. This is due to actions by the investors. A case in China stock market shows that lack of experience and investor's sentiments have got a relationship with stock returns and volatility (Bennet, Amoako & Charles, 2012). This means that high sentiments cause high stock return while low sentiments intensify low returns. African investors and more so those on sub-Saharan African are skeptical of investment and thus tend to attach believe to what they can feel, see and hear of the investment (Baker & Wurgler, 2007).

Three factors are repeatedly mentioned in case of what influences the investor's sentiments in the world. There are those that are specific to individual, market and those subjective to regulatory frameworks.

Individual factors come about due to psychological reasoning and interaction socially. Bennet and Selvam (2013) describe psychological factors to be the "investors' gut feeling, intuition, rumors and recommendation by friends, family and peer" (p. 3). So, a view of the market to be either bullish or bearish, majorly depend on the psychology which outright determines the mindset that influences market trends (Jayaraman et al., 2014). An optimistic or pessimistic attitude will work to change the market sentiments substantially. Investment sentiments is primarily a changer of the market on areas not limited to the quantum of investment, investment time and avenue and investment duration.

A call for transparency among institution of governance has recently being on the rise. This is due to the high number of listed companies failing to rise to the occasion in terms of the profit. Funds embezzlement have been at the center of the many profit-declining organizations in African countries inclusive of Kenya (Dube 2014; Cooley, 2015; Njenga, 2013). To obviate this, full and mandatory disclosure of whatever is happening in the company reviewed from time to time as necessitated to create investors' confidence. In this regard, well-run companies have gone to an extent of using voluntary disclosure, to tell over and above the required disclosure, to woe investors to continue investing in their company. Political influence has to be kept at a distance.

Together with this, market factors need to be check always. This help to control frequent fluctuations in the company valuation that tends to stabilize at given price. Ability to control the interest rate changes is also a plus for any market that hopes not to retain their investors for long (Muriuki, 2013). To do so market has to be able to enhance control of the information passed from time to time. For a company, a lot of value is given to private information in the hands of the investors as compared to the public information which in most cases is ignored. This will further enhance an allowable level of confidence because again overconfidence is one of the factor present in an inefficient market. Overconfidence is considered as the human overestimates of their ability thus creating bias and consequently regrets from poor decisions (Chang et al., 2016). Therefore, this should be outdone by providing the necessary information to avoid too much speculation.

As realized investors' sentiments are useful aspects that need proper understanding on two fronts. First, in the studying of how group of investors behaviour is formed from the expectation and trade and second from what past researchers have shown investors sentiments as necessary component in developing stock returns for the time to come (Bennet & Selvam, 2013). Other countries have conducted this kind of study apart from Kenya market thus the need to carry out one of its kind. As Bennet and Selvam (2013) points out people behaviour keep on changing from time to time thus there need to periodical interval study of their sentiments. For such reasons an academic inquest is conducted to know what are the determinants of investor sentiments among private investors in Nairobi securities exchanges?

II. PROBLEM STATEMENT

Investor's sentiments are relevant to the growth of investment in an economy since it drives the financial fluctuation by reacting to the business cycle. A positive sentiment by investors is a recipe headed to investment in purchase of durable goods or assets at the prevailing market prices. Mainly, investors are after returns from the investment and therefore any view of undervaluation or overvaluation are taken seriously.

However, the implication that prices of assets reflect the publicly available information as held by Fama (1970) in the efficient market hypothesis is nowadays not the case (Jayaraman et al., 2014). Markets are currently trading is inefficient and full of imperfections to the detrimental of investors. Trading activities have shown patterns of herding in the stocks and their output (Ayuko,2015). Further, Bitok, Kiplangat, Tenai and Rono (2010) points out that investor in securities are currently worried by the turbulent prices of securities that continue to dip day by day to new and lower levels. Market has also been hit hard by new set of regulation and governance that try to adapt to the ever-changing investment arena. Damaging report of companies collapsing has frequented news of the day thus causing for twist in the investors sentiments. Regulators and their framework can no longer condone mismanagement thus sending some firms under receivership hence aggravating the panic in the market (Bitok et al., 2010).

Traditional methods are geared so much towards quantitative and performance related factors to an extent that human behaviour is not considered to have no impact on the valuation of securities (Kiri & Patel, 2015). In that regard tradition models cannot be relied fully to explain the changes in the value of assets. This makes a study of investor's sentiments relevant since it forms a superior explanation to these market changes and behaviour. On this backdrop, the research studies what determine of investors sentiments among private investors in Nairobi Securities exchange.

The main objective of the study was to examine determinants of investor sentiment among private investors in Nairobi securities. To achieve this, the study will be guided by:

- To examine the influence of individual factors on investors sentiment amongst private investors in Nairobi securities exchange

- To examine the influence of regulatory factors on investors sentiment amongst private investors in Nairobi securities exchange
- To establish the influence of market related factors on investors sentiment amongst private investors in Nairobi securities exchange

III. LITERATURE REVIEW

Efficient Market Hypothesis

Efficient Market Hypothesis (EMH) articulates available information to the prices of financial assets such as stock, debentures and so on. In particular, it states that the prices will always reflect the past, current and the future expected public information of the issuing company or institution (Fama & French, 1970). This theory further assumes that both rational and irrational investors need not to depend on the amount of analysis to be advantage of other investors (Thune, 2017). A definition for an efficient market then follows to be one characterized with "large numbers of rational, profit 'maximisers' actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants" (Fama, 1970). Thus, three forms of EMH are weak, semi-strong and strong forms. However, many investors capitalize on the weakness shown by the market and therefore efficiency of the market based on the available information does not really matter as presumed by EMH. It is no wonder that even experienced portfolio managers and professional and legendary investors have lost to the market indices (Thune, 2017). Inefficient market thus forms a contradiction to EMH that seeks further study to ascertain the actual state of what causes value or price movements.

Behavioural finance theory

According to this theory investors are deemed to be rational in regard to the information available that tends to influence decision making process but instead investors are irrational with the behaviour such as investor's moods, emotions, risk and expectation of the future cashflows (Ph & Uchil, 2016). Bennet and Selvam (2011) argues that when classical financial theory is always rational to information, behavioural finance theory shares the irrational sentiments by the investment and how they impact the prices. According to Veira and Pereira (2015) behavioural finance theory depicts an investor who is influenced by psychological factors while making decision on investment hence deviating from the rationality in choice. This causes a random shift in asset prices in relation to the original value. In the view of Veira and Pereira, irrational investors tend to follow a similar behaviour unlike those who are rational who takes advantages of arbitrages opportunities. In a competitive context, emotion moods and feeling of investors are likely to be relevant in regarding financial decision making and subsequently affect price movement of assets.

IV. EMPIRICAL REVIEW

Individual factors and investors sentiment

Individuals investors may not be in possession of knowhow of the market, thus relies on professional, advisors and friends to make even in the slightest move. This is referred as herding effect. The attitude of the investors towards these persons is their sentiments because how they perceive their advice is what is concluded as the investment decision. A positive perception or attitude will lead to investment while a negative will leave the investor skeptical to face the investment and therefore wait for the precise time.

According to Ayuko (2015) investors tends to mimic the portfolio of wealthy people or a large group of persons. This could be said to be trading activities in the same direction since many of the participants have a correlated behaviour as result of deeds of previous participants, thus herding can be said to emanating from psychological and social conventions (Spyrou, 2013). Therefore, investors sentiments can be said to fall the knowledge of individual investors who can translated that to others if they have a clue on investment environment. The level of individual confidence also determines their investors sentiments because as Maina (2016) points out confident investors depend heavily on private information to invest and several other actions to try and mitigate risks. Investors preference also determine the choice of whether to herd or not since individual investors are more inclined to herd than institutional investors while making investment decision (Good fellow, Bohl & Gebka, 2009).

Regulatory framework and investors sentiment

Pangano as cited in Bitok et al., (2010) showed that a regulatory and institutional factor does affect the investments made. In situation where regulator demands firms to enter reliable information in their compulsory disclosure, it may serve to encourage more investor participation by the build-up investor's confidence in the market. As Syed, Safdar and Arshad (2009) avers a quicker and a more reliable information release goes to a greater mile to discern investors from using their emotion to make investment decision. This calls the companies

to release information that is not only accurate and transparent but also timely to everyone so as to allow planning and obviate to much so speculation.

Exposure of the public obliges a company to disclose as much as they can to potential and already team of investors. The image created in the eyes of the investors tells much about the company value that continues to form in the investors who chooses to have the company as their investment. Blue chip companies tend to disclosure more even without any legal framework demanding for it. This goes a mile to tell potential and existing investors how much they ought to hold in that company since with transparency and disclosure a negative or positive sentiment may befall. Laws sets to regulate the company have been found to positively or inversely impact the investors since less politicking of the events of the company and benefits thereof would invite or form a resistance mind to the up taker (Fong 2013).

Market factors and investors sentiment

Macro-economic factors that include inflation rate, interest rate and exchanges rate have been observed to have an impact on the attitude shown by investors when making the decision as to whether to invest or not (Baker & Wurgler, 2007). (Baker & Wurgler, 2006) adds that a relevant effect of inflation on money growth of the market stock. Further risk and cost associated with the business are also predictors of investor's attitude toward the stock market. Cost cutting exercised is usually received well by investors since it allows companies to propel. This can be achieved through lowering operational cost vial technological advancement (Baker & Wurgler, 2006).

A study carried out in Ghana economy has shown that interest rate, unemployment and economic strengths are the major factor influencing investment attitude which translate to sentiments (Hussein, 2007). That is market returns ae tied to the inflation rate and interest rates. A smart investor is described by (Ph & Uchil, 2016) as one who take heed of the information coming on or by the way since information triggers a rapid market response. (Cao, Wang and Zhang, 2005) suggest a clear and straight forward ways market will encourage investors to have a look at what it has to offer rather than a complicated market which can only be left for the elites.

Investors Sentiment

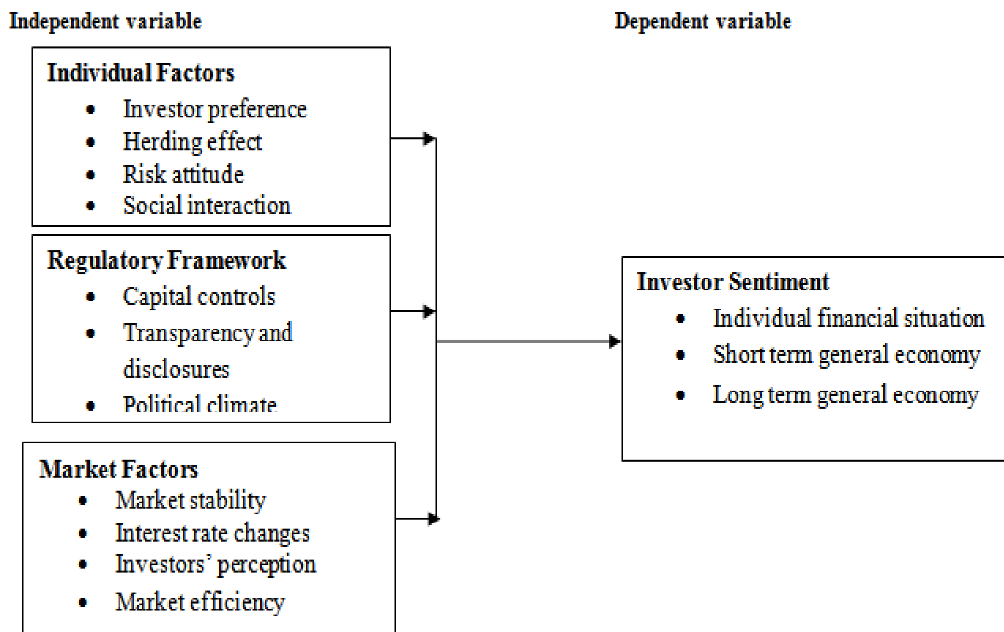
Baker and Wurgler (2007) defines investor sentiments as "a belief about future cash flows and investment risks that is not justified by the facts at hand" (p.2) this may be a risk and costly affair that investor choses to engage. An investor who is rational or an arbitrager is not controlled by the sentiments thus letting prices to fundamentals remain at the standard model. Individual sentiment usually has an influence on the expectation of events which further influences their decision-making process. An optimistic mind would be likely to have positive sentiments and therefore choose optimistically while at the same time a pessimistic thinker is likely to choose negative events due to negative sentiments (Veira & Pereira, 2015). In the market, sentiments are still prevalent where investors anticipate on development in price in the market depending on opinion and attitude.

Baker and Wurgler (2006), believe that investor sentiment can be traced by assessing the size, profitability, volatility, stock market turnover and returns of Initial public offering. These metrices track impact of aggregate sentiment on achieving market returns as well as individual stocks. Recently, Ben-Rephael, Kandel, and Wohl (2012) had investors sentiments metric in a mutual fund flows as a Survey-based Consumer Sentiment Index from the Universities student of Michigan Survey Centre and also incorporating Baker and Wurgler (2006) six metrics.

Economic factor that causes changes in investors sentiments include real Gross Domestic Products, corporation profits, inflation rate, interest rate and liquidity in the economy (Ph & Uchil, 2016).

Conceptual Framework

In the current paper there is a hypothesed relationship between individual factors, regulatory framework, market factors and investor sentiment amongst private investors from Nairobi securities exchange.



V. RESEARCH METHODOLOGY

Research Design: This is the logic which guides on how research questions will be answered (Oso & Onen, 2009). The most common types of research designs are descriptive, exploratory and causal research design. Descriptive research design seeks to describe the situation the way by answering questions such as when, how, what and why (Mugenda & Mugenda, 2012). Exploratory research design seeks to address a pre existing problem and casual research design explains the causal effect between study variables. In the current article descriptive research design was applied since the paper sought to explore determinants of investor sentiments amongst private investors in Nairobi securities exchange.

Sampling Technique and Sample Size: Research is always inhibited by budgetary allocation and time constraints. This calls for consideration of a sub set of the target population which acts as its true representation (Oso & Onen, 2009). Purposive sampling was adopted to select those private investors who had invested in more than one Counter in NSE and were actively trading. For a survey design based on a simple random sample, the sample size required can be calculated according to the following formula (Kothari, 2011).

$$n = \frac{Z^2 \times (1-p)}{m^2}$$

Where: n = required sample size

Z = confidence level at 95% (standard value of 1.96)

p = estimated percentage prevalence of the population of interest – 10%

m = margin of error at 5% (standard value of 0.05)

Therefore the sample size will be;

$$n = \frac{(1.96^2 * 0.5 * 0.5)}{0.10^2} = 196.$$

Data and Data Collection Instruments: The current study was based on primary data which was collected through use of closed ended questionnaires. A questionnaire was deemed appropriate since it was easier for respondents to respond to questions. The researcher self administered the questionnaires amongst students during their lecture sessions. This enhanced the response rate and lowered the possibilities of defaulting. All questions were in Likert scale ranging from strongly disagrees to strongly agree and respondents were expected to indicate their levels of agreement on how certain attributes affected their investor sentiment.

Data Processing and Analysis: Primary data collected was checked for completeness and accuracies. It was coded and captured into PASW version 22. It was analysed using descriptive procedures means and standard deviation. Moreover, correlation analysis was carried out to show the strength of the relationship and regression analysis showed then nature of the relationship. Multiple regression analysis was applied and the hypothesed model was.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \acute{\varepsilon}.$$

Where; Y represents Investor Sentiment

X_1 represent Individual factors
X_2 represent Regulatory Framework
X_3 represent Market Factors
έ represent error term.

VI. FINDINGS AND DISCUSSIONS

The objective of the study sought to establish the influence of individual factors with investor investment. The respondents were requested to rate their responses on a five point Likert scale on how individual factors influenced investor sentiment. Most of the respondents agreed that individual factors influences investor sentiment (mean = 4, standard deviation = 1). On average majority agreed (mean = 3.9) that social interactions had influences investor sentiment. Majority agreed that financial knowledge (mean = 4.2), investor preference (mean = 3.8), risk tolerance (mean = 4.1) and herding behaviour (mean =3.9) influenced investor sentiment.

Table 4.1 Individual Factors

Individual Factors	Mean	Std. Deviation
Social Interaction	3.9	1.1
Financial knowledge	4.2	0.8
Investor preference	3.8	1.2
Risk Tolerance	4.1	0.9
Herding behaviour	3.9	1.0
Overall Average	**4.0**	**1.0**

The second objective sought to examine the influence of regulatory framework on investor sentiment. On a five point Likert scale the respondents agreed that capital controls (mean = 3.7), disclosure requirements (mean =3.9), trading rules (mean =4.2), tax policies (mean =3.9) and government securities (mean = 4.2). Moreover, majority agreed (mean = 4.0, standard deviation = 1.0), agreed that regulatory framework had influence on investor sentiment.

Table 4.2 Regulatory Framework

Regulatory Frameworks	Mean	Std. Deviation
Capital controls	3.7	1.2
Disclosure requirements	3.9	0.8
Trading rules	4.2	1.1
Tax policies	3.9	0.8
Government securities	4.2	0.9
Overall average	**4.0**	**1.0**

The third objective of the study sought to determine the influence of market factors on investor sentiment. Results of the study revealed that majority agreed that market forces have influence on investor sentiment (mean = 4.1). On average majority agreed that asset pricing (mean = 4.1), interest rate (mean = 3.9), inflation rate (mean = 4.2), exchange rate (mean =4.1) and GDP rate (4.2).

Table 4.3 Market Factors

Market factors	Mean	Std. Deviation
Asset pricing	4.1	1.2
Interest rate	3.9	0.8
Inflation Rate	4.2	1.3
Exchange rate	4.1	0.9
GDP rate	4.2	0.8
Overall average	**4.1**	**1**

Pearson's correlation analysis was carried out to examine the strength of the relationship between investor's sentiment and individual characteristics, regulatory framework and market factors. There was a positive and significant relationship between individual factors and investor sentiment (rho = 0.52, p value <0.05). Secondly, there was a positive and significant relationship between regulatory framework and investor sentiment (rho = 0.49, p value <0.05). Thirdly there was a positive and significant relationship between market factors and investor sentiment (rho = 0.56, p value <0.05).

Table 4.4 Correlation Analysis

	Investor sentiment	Individual factors	Regulatory framework	Market factors
Investor sentiment	1			
Individual factors	.52**	1		
Regulatory framework	.49**	.25	1	
Market factors	0.56**	0.13	0.36	1

** Correlation is significant at the 0.01 level (2-tailed).

As shown in Table 4.5 there was a positive and significant relationship between individual factors and investor sentiment (β= 0.36, p value <0.05). This implies that a unit change in individual factors increases investor sentiment by 0.36 units while holding regulatory framework and market factors constant.

Secondly, there was a positive and significant relationship between regulatory framework and investor sentiment (β= 0.38, p value <0.05). This implies that a unit change in regulatory framework increases investor sentiment by 0.38 units while holding individual factors and market factors constant.

Thirdly, there was a positive and significant relationship between market factors and investor sentiment (β= 0.45, p value <0.05). This implies that a unit in market factors increases investor sentiment by individual factors and regulatory framework.

Table 4.5 Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.35	0.59	0.59	0.000
Individual factors	0.36	0.13	2.85	0.000
Regulatory framework	0.38	0.14	2.71	0.00
Market factors	0.45	0.15	2.98	0.000
R-squared	0.48			
Adjusted R-squared	0.46			
S.E. of regression	0.072			
Sum squared residuals	8.25			
Log likelihood	212.36			
F-statistic	48.63			
Prob (F-statistic)	0.00			

VII. CONCLUSIONS AND RECOMMENDATIONS

Based on the study findings there was a positive and significant relationship between individual factors, regulatory framework, market factors and investor sentiment. Therefore it can be recommended that measures should be deployed to promote investor education and enhance their knowledge levels. This can be achieved through holding of investor's education forums and workshops.

There is need to continuously evaluate regulatory framework governing investment in Kenya. Through these regulations investors confidence will be enhanced and ultimately promote investment amongst different stakeholders. The minimum capital requirement attainment should sensitize and all investors should be in a position to evaluate companies which have attained the requirements. Macroeconomic information should be shared regularly so as to guide investors' prior to making investment decision.

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