Effects of Investments Appraisal Methods on Shareholders Wealth for Companies Listed In Nairobi Security Exchange

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Abstract: Investment decisions are essential for a business as they define the future survival, and growth of the organization. The main objective of a business being the maximization of shareholders' wealth, therefore a firm needs to invest in every project that is worth more than the costs. Moreover, corporate executives are under increasing pressure to demonstrate on regular basis that their actions will result in an increase in the share price. This pressure has led to an emergence of a variety of measures that claim to quantify value creation and performance.

The study examined the effects of investment appraisal methods on shareholders' wealth for companies listed in the Nairobi Securities Exchange. The study was guided by the following objectives:

1. To establish the effects of asset allocation and market timing investment appraisal methods on shareholders' wealth for companies listed in the Nairobi Securities Exchange.
2. Target population was for Top Management and Middle level Management.
3. The sample size of this study composed of the top Level Management and the Middle level Management of the 57 firms listed in the Nairobi Securities Exchange.

The research used a correlation study in nature. The sampling techniques used in the study was stratified simple random sampling. The data collected used both primary and secondary data and before the questionnaire was administered it underwent pilot testing.

Data were tabulated and analyzed using correlation models in order to determine how the investment appraisal methods were correlated with the shareholders' wealth. After obtaining the relevant statistics, data were tabulated and the results interpreted, conclusions and recommendations made. Pilot testing of the data collection tools was done. It helped identify weaknesses in the data collection tools piloting was done using 10 respondents randomly selected from the 57 firms listed in the Nairobi Security Exchange. The instruments that were used in this study were majorly secondary data and semi-structured questionnaires. The findings of the study indicated that there was a positive relationship between asset allocation and shareholders wealth in the years 2009 to 2013. There was a positive relationship between market timing in stock and shareholders wealth in the years 2009 to 2013 in Nairobi securities exchange. The findings of the study indicated that asset allocation and market timing investment method positively influenced shareholder wealth positively when other factors were kept constant. There should be a study replicated in other sectors of the companies not listed in the Nairobi Securities Exchange and also similar research can be done for other stock exchange in other countries.

I. Background of the Study

Investment decisions are essential for a business as they define the future survival, and growth of the organization. The main objective of a business being the maximization of shareholders' wealth. Therefore a firm needs to invest in every project that is worth more than the costs. Which investment methods are best? Financial analysts, money managers, and financial media have always argued about their question and still the controversy rages. One of the most popular solutions is investing in stocks. Many individuals simply choose to believe someone else or have a television, or maybe someone on their company suggested. They also have to consider the timing of the investment, typically the most recent short period of time. 

Armitage, Howard & Kaplan (1994)

Capital markets are becoming increasingly global. Investors can readily shift from investment in foreign countries to domestic markets. Capital gains and losses from investments are likely to be substantial. Corporate governance is shifting, with owners now demanding accountability from corporate executives. Manifestations of the increased assertiveness of shareholders include the necessity for executives to justify their compensation levels, and well-publicized lists of underperforming companies and overpaid executives (David, 2004). The heightened awareness towards global equities and the subsequent sell-off in both the developed and frontier markets in Sub-Saharan Africa including Kenya are likely to continue, this means that foreign investors may remain cautious hence reduced activity at the local, bourse until the shilling shows signs of stability and the high inflation rate start receding.

David Achungo, at investment manager at Pine Bridge Investments limited indicated that stock market analysis at the beginning of August 2013 revealed that more than Sh20 billion worth of investor’s wealth was
wiped off at the Nairobi Stock Exchange (NSE) during the first week of August as the bear run deepened and investors fled for safety in the bond market.

On the other hand, bonds trading more than doubled, from Sh4.5 billion to Sh9.9 billion with the total deals transacted in the week also increasing to 126 from 52 in the previous week. According to Standard Investment Bank (SIB) activity at the bourse remained equally split between foreign and local investors, with foreign investors remaining net sellers.

The NSE has experienced a net foreign investor outflow of Sh2 billion in the period January to August 2013, compared to net inflows of Sh8 billion in similar period last year 2012. Profit warnings at the Nairobi Securities Exchange on Friday rose to 10 from 10 in performance that has investors who got only two such alerts last year lose billions of shillings through share price erosions.

Most of these companies have seen their market value decline at the Nairobi bourse over the past six months. During the same period, Nairobi Securities Exchange has seen the stock market gain by 23.3 percent, aided by the performance of most blue chip firms and increased foreign investor interest.

The high profit alerts this year had been driven by the weak local and global economy besides other unique factor st that had eroded the earnings of individual firms. Investors in the companies had issued profit warnings are set to get lower or nodividend this year, besides suffering share price erosion (Duke, 1993).

In the same period, EAPCC’s share price dipped 31.2 percent to Sh42 as KQ’s share lost 18.5 percent to Sh12.2. Other firms that recorded share price erosion in the same period include, Eaagads, and Kakuzi whose shares dropped 30.4 and 12.5 percent respectively to Sh24.5 and Sh70 a piece.

Investors in other companies that have posted strong profit growth have, however, seen their paper wealth rise by double digits, highlighting that the negative impact on performance of most blue chip firms and slow earnings on investment wealth. Safaricom investors had been eff fited the most, with the stock price rising 50.7 percent over the past six months to Sh49.8, with the company reporting a 98.3 percent growth in net profit to Sh7.7 billion in the first half ended September (Buzzel, 1996).

Four methodsof appraisal techniques are Asset Allocation, Market Timing, Fundamental/Technical Analysis and modern portfolio methods. This study assessed the effects of investment appraisal methods on shareholders wealth for companies listed Nairobi Securities Exchange.

**Statement of the Problem**

Despite the popularity of many investment methods, studies have revealed that the rate of change in shareholders wealth have stagnated due to in adequate application and use of appraisal methods of investment. Ryan & Ryan (2002)

According to Darbar, (2010) statistics show that for the 20 years ending December 31, 2009, Investors’ annualized returns reflected negative trend such that the impact was not positively reflected in the competitive market: Equity 3.17%, fixed income 1.02%, and asset allocation 2.34%, all returns are before an inflation correction of 2.80%, which leaves investors with 20 years real equity annualized return of 0.73% and negative annualized returns for fixed income of -1.78% and asset allocation -0.46%.

Studies by Michael Barnet (2006) indicated that contradictory schools of thought exist about how to construct a portfolio of equities that maximizes shareholders wealth. Modern Portfolio theory is the foundation of the mutual fund industry. It’s widely promoted as the way investors should allocate capital to be in line with money management practices. Moreover, a lot of market timing by financial analysts, many investors are still losing value while others are gaining value in their investments (Standard Investment Bank, 2012).

It’s on this basis that there was need to carry out the research on the effects of investments appraisal methods on shareholders wealth for companies listed in Nairobi Securities Exchange.

**Research Objectives**

The overall objective of the study was to establish the effect of investment appraisal methods on shareholders wealth in Nairobi Securities Exchange.

The specific objectives of the study were:

i) To establish the effect of asset allocation on shareholders wealth for companies listed in the Nairobi Securities Exchange.

ii) To find out the effect of market timing appraisal methods on shareholders wealth for companies listed in the Nairobi Securities Exchange.

**Research Questions**

i) What are the effects of asset allocation on shareholders wealth for companies listed in the Nairobi Securities Exchange?
ii) How does market timing affect shareholders wealth for the listed companies in the Nairobi Securities Exchange?

**Justification**

This study was of great significance to the top management in planning, executing and balancing the resource of a company in a way that there is maximum work output to attain the goals of the company, while retaining the work quality by ensuring shareholders wealth were created. Shareholders are owners of the companies.

They play an important role in the financing, operating, governance and control aspects of a company, shareholders expects value from their investment, employees; the main objectives of a business owners is profitability. Organizations success depends on the employees’ performance through the expertise of human resource leader and the support of your company’s executive leadership and in return employees derive their livelihood from the firm.

Scholars need to provide major gains in knowledge and gap for further research. The study will be of great importance to the government of Kenya and Policy-makers as it will provide information on aspects of investments appraisal methods on shareholders wealth for firms listed in NSE. In addition it will also provide information to understand the needs and problems of the study and solutions suggested to the problem

**Scope**

The study focused on the effects of investment appraisal methods on shareholders wealth for companies listed in Nairobi Securities Exchange, the information or data were obtained from top level management and middle level management. The research covered five financial years and conducted for all the 57 listed companies in the Nairobi Securities Exchange.

**Limitations**

Many of the respondents were the top executives and middle level management in the listed firms in Nairobi Securities Exchange. Most of the top executives had very busy schedules and were unable to find adequate time to respond to the questionnaire. Respondents were given adequate time to respond with various reminders through their personal assistants and secretaries. Further, the study had established an network of friends to the top executives and middle level management in order to get the questionnaire filled.

**II. Literature Review**

This chapter presents a review of literature related to investment appraisal methods and shareholders' wealth of Nairobi Security Exchange. The chapter begins with a theoretical review and theories related to asset allocation and market timing which is followed by conceptual framework a literature review of variables. Empirical review, critique of the existing literature, summary and research gap

**2.1 Theoretical Review**

According to Kombo & Tromp (2006) theoretical framework is a collection of interrelated ideas on theories. It is a reasoned set of prepositions which are derived from and supported by data or evidence, and also Kothari (2004). Stated that theoretical framework is simply a theory, but it can also be general as a basic approach to understanding the issues at hand.

**2.2 Asset Allocation**

**The Dow Theory**

Dow Theory comes from Charles Dow, who was a journalist and co-founder of Dow Jones and Company. He had several major beliefs in his Dow Theory. Markets have 3 trends: Most of the time, the market would move sharply in one direction, recedes briefly in another, and then resumes the original direction. This is the basis of most of technical analysis. Markets have 3 phases: accumulation by astute investors, then trend followers jump on board,

And finally the same astute investors begin unloading their shares. The stock market is relatively efficient: Stock prices react quickly to news. Stock market averages should confirm each other; When market indices begin to diverge, it typically signifies a change in direction its occurring trades are confirmed with volume. Trends exist, until real signals indicate otherwise.

**Elliot Wave Theory**

Developed by Ralph Elliot in the 1920's, Elliot Wave Theory suggests that the market moves in repetitive patterns called waves. The theory consists of the following; every market action is followed by a
reaction, there are 5 waves in the direction of the main trend followed by 3 corrective waves. The cycle is over after the waves of 5 and 3. The 5-3 move becomes 2 subdivisions of the next higher 5-wave.

2.3 Market Timing Theories

Market timing is the strategy of making buy or sell decisions on financial assets (often stocks) by attempting to predict future market price movements. The prediction may be based on an outlook of market economic conditions resulting from technical or fundamental analysis. This is an investment strategy based on the outlook for an aggregate market, rather than for a particular financial asset.

Moving Averages

Market timing often looks at various moving averages. Popular are the 50- and 200-day moving averages. Some people believe that if the market has gone above the 50- or 200-day average, then it could be considered bullish, or below conversely bearish. Mark (2010) technical analysts consider it significant when one moving average crosses over another. The market timer then predicts the trend will continue in the future. Others say, "Nobody knows" and that world economies and stock markets are of such complexity that market timing strategies are unlikely to become profitable and hold strategies.

Moving average strategies are simple to understand, and often claimed to give good returns, but the results may be confounded by hindsight and data mining. Valeriy & Zakamulin (2013).

Differing Views on the Viability of Market Timing

Who can predict the next events that may affect the economy and stock prices as thoroughly as the world's economic conditions? The prediction might be based on an outlook of market or economic conditions resulting from technical or fundamental analysis. The efficient market hypothesis claims that financial prices always exhibit random walk behavior and thus cannot be predicted with consistency.

Some consider market timing to be sensible in certain situations, such as an apparent bubble. However, because the economy is a complex system that contains many factors, even times of significant market optimism or pessimism, it remains difficult to predict. If not impossible, to predict the local maximum or minimum of future prices with any precision. A so-called bubble can last for many years before prices collapse. Likewise, a crash can persist for extended periods; stock prices may appear much cheaper a few weeks later. Thus, if market timing is not a viable investment strategy, the proponent's claim that financial prices always exhibit random walk behavior and thus cannot be predicted with consistency.

Brokers May Favor Institutional Investors at the Expense of Smaller Retail Investors

Perhaps consistent with these two opposing viewpoints is that, as with any type of trading, market timing is difficult to carry out consistently. Particularly for individual investors, who are not schooled in technical analysis. Retail brokers are generally unschooled in both the mindset and the tools needed to successfully time the market, and indeed most are not as actively discouraged by the brokerage firms themselves from moving their clients in and out of the market. However, as market makers, many of these large brokerage firms use opposite approaches with their large institutional clients, trading various financial instruments with these clients in an attempt to predict future market movements and thereby make a profit for their institutions, this dichotomy in the treatment of institutional vs. retail clients can potentially be controversial for brokerages.

It may suggest an example that retail brokers and their clients are discouraged from market timing, not because it doesn't work, but because it would interfere with the brokerage's market maker trading for their institutional clients. In other words, retail clients are encouraged to buy and hold, so to maintain market liquidity for their institutional trading. If true, this would suggest a conflict of interest, in which the brokerages are willing to sacrifice potential returns for their small retail clients in order to benefit larger institutional clients.

The 2008 decline in the market is instructive. While many retail brokers were instructed by their brokerage to tell their clients not to sell, but instead "look to the long term".
The market makers at those same brokerages were busy selling to cash to avoid losses for the brokerages' large institutional clients. The result was that the retail clients were left with huge losses while the institutions fled to the safety of short-term bond and money market funds, thereby avoiding similar losses. Regarding University of Michigan Consumer Sentiment Index, Thompson Reuters announced on 08 July 2013 that it was suspending its early release practice as part of a new agreement with the New York Attorney General's office.

**Curve Fitting and Over-Optimization**

A major stumbling block for many market timers is the phenomenon of curve fitting. This means that a given set of trading rules has been over-optimized to fit the particular data set for which it has been back-tested. Unfortunately, if the trading rules are over-optimized they often fail to work on future data. Market timers assume that the difficulties in choosing the right data can be overcome by looking for clusters of parameter values which work particularly well. Another is using out-of-sample data, which is essentially the data that the market timers use to predict future performance. However, critics charge that once the strategy has been revised to reflect such data, it is no longer "out-of-sample".

**Independent Review of Market-Timing Services**

Several independent organizations, for instance Timer Digest and Hulbert Financial Digest, have tracked some market timers' performance for over thirty years. These organizations have found that purported market timers in many cases do better than chance, or even worse. However, there are exceptions, with some market timers over-their thirty-year period having performance that substantially and reliably exceeded that of the general stock market or the sectors in which the market timers invest. Jim Simons' Renaissance Technologies Medallion Hedge Fund has consistently outperformed the market. The fund allegedly uses mathematical models developed by Elwyn Berlekamp.

Recent studies suggested that the best predictor of a fund's consistent outperformance of the market was low expenses and low turnover, not pursuit of a value or contrarian strategy. However, other studies have concluded that some simple strategies will outperform the overall market. One market-timing strategy is referred to as "TimeZone Arbitrage." Formally, market timing is legal, but the Financial Industry Regulatory Authority has long frowned on the practice since it passes the trading costs to long-term investors. Consequently, many brokerages will not fill market-timing orders.

**Evidence for Market Timing**

Mutual fund flows are published by organizations such as Investment Company Institute and TrimTabs. These show how flows generally track the overall level of the market: investors buy stocks when prices are high, and sell stocks when prices are low. For example, in the beginning of the 2000s decade, the largest in-flow to stock mutual funds were in early 2000. While the largest out-flow were in mid-2002, it is good to note that these mutual fund flows were near the start of a significant bear (down) trend in market and bull (up) trend in market, respectively. A similar pattern is repeated near the end of the decade. This mutual fund flow data seem to indicate that most investors (despite what they may say) actually follow a buy high, sell low strategy. Studies confirmed that the general tendency of investors to buy after a stock has had a positive price change has increased. This tendency of buying after a price peak and selling after a price dip may be why the average investor performance is lower than that of the market. Inflows tend to lower market returns, while outflows tend to boost market returns. This significant result suggests that the return is not a simple function of market timing alone.

Researchers suggest that after periods of higher returns, individual investors sell their value stocks and buy growth stocks. Frazzini and Lamont (1996) find that, in general, growth stock returns are lower when investors buy growth stocks. Darbon (2010) study found that the average investor's return in the stock market is much less than the amount that would have been obtained by simply holding an index fund consisting of all stocks contained in the S&P 500 index. A recent study suggests that corporations and investment banks can time the credit market. They show that investment banks such as Goldman Sachs do poorly as firms like Ford when it comes to timing the issuance of their bonds.

**Legality**

While market timing is legal, the Financial Industry Regulatory Authority has long frowned on the practice since it passes the trading costs to long-term investors. Consequently, many brokerages will not fill market-timing orders.

**What Some Financial Advisors Say**
Financial advisors often agree that investors have poor timing, becoming less risk averse when markets are high and more risk averse when markets are low. This is consistent with recency bias and seems contrary to the acrophobia explanation. "The only problem is that, unlike Mr. Spock of Star Trek fame, humans are not entirely rational beings. Proponents of the efficient-market hypothesis claim that prices reflect all available information. EMH assumes that investors are highly intelligent and perfectly rational. However, others dispute this assumption. "Of course, we know stocks don't work that way." In particular, proponents of behavioral finance claim that investors are irrational but their biases are consistent and predictable.

According to Kenneth R. French, G. William Schwert and Robert F. Stambaugh (1987) an unexpected increase in volatility lowers current stock prices. Total (TFP) Growth Volatility is negatively associated with the value of U.S. corporations. An increase of 1% in standard deviation of total factor productivity (TFP) growth is associated with a reduction in the value-output ratio of 1%. Changes in uncertainty can explain business cycle fluctuations, stock prices, and banking crises.

Conceptual Framework
This study sought to establish the effects of investment appraisal methods on the shareholders wealth the independent variables were asset allocation and market timing investment appraisal methods.
Themarkettimersthenpredictthatthetrendwill,morelikelythannot,continueinthefuture.Otherssay,"Nobodyknowsa
ndthatworlddeconomiesandstockmarketsareofsuchcomplexitythatmarkettimingstrategiesareunlikelytobemoreprofi
tablethanequal-buy-and-
holdstrategies.Movingaveragestrategiesaresimpletounderstand,andoftenclaimtogivegoodreturns,butthefuturemay
beconfusedbyhindsightanddatamining.

Shareholders wealth
According to Ehrbar (1998) Maximizing shareholders wealth has become the new corporate paradigm. Managers and researchers have traditionally recognized shareholders wealth maximization as the ultimate corporate goal. The owner of the company that is the shareholders wealth means maximizing the net worth of the shares held by them. Therefore wealth maximization means creation of maximum value for company’s shareholders which is a long term proposition that delivers higher economic output and through productivity gains, employment growth and higher wages. Management most important mission is to maximize shareholders wealth

According to Reid (2007) shareholders or stockholders own parts or shares of companies. In large corporations, shareholders are people and institutions that simply invest money for future dividend and for the potential increased value of their shares whereas in small companies. They may be the people who established the business or have a more personal stake in it. In terms of poor performance in generation of shareholders wealth, the most preferred response will be top management replacement , followed by divided omission and employee layoffs in that order.

Summary
This chapter has captured theoretical and empirical literature on the effects of investment appraisal methods on shareholders wealth for companies listed in Nairobi Securities Exchange. A lot of studies have been carried out in the developed world with limited cases of study in the developing world. The contribution of investment appraisal methods on shareholders wealth cannot be ignored.

Research gap
According to Reid (2007) shareholders or stockholders own parts or shares of companies. In large corporations, shareholders are people and institutions that simply invest money for future dividend and for the potential increased value of their shares whereas in small companies. This study did not cover the effect of asset allocation, market timing appraisal investment methods on the shareholders wealth for the companies not listed in the Nairobi Securities Exchange.

III. Research methodology
outlines the procedures and methods the researcher employed in carrying out the study, the section comprised of the research design, target population, samplingsize and sample techniques, data collection and data analysis methods.

A research design is the structure, or the blueprint, of research that guides the process of research from the formulation of the research questions and hypotheses according to Kothari (2010) a research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information. According to Johnson (2002) research design provides a framework or plan of action for the research objectives of the study. Which were determined during the early stages of the research and were included

The researcher determined the sources of information and the design technique. This study used a correlation research design to identify the relationship between the independent variables and the shareholders wealth the dependent variable

Lavrakas (2008) described a correlation research as a type of descriptive non-experimental research because it described and assesses the magnitude and degree of an existed relationship between two or more continuous quantitative variables with interval or ratio types of measurements or discrete variables with ordinal or nominal type of measurements.

According to Kothari (2004) a sample of 30% is recommended for a representative of the target population for the top level management and middle level management was 456 of all the 57 firms listed in the Nairobi Stock Exchange.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>30% Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level management</td>
<td>114</td>
<td>34</td>
</tr>
<tr>
<td>Middle level management</td>
<td>342</td>
<td>102</td>
</tr>
<tr>
<td>Total</td>
<td>456</td>
<td>136</td>
</tr>
</tbody>
</table>
Sample Size and Sampling Technique

Lavrakas (2008) describes a sample in a survey research context as a subset of elements drawn from a larger population. Kothari (2004) describe a sample as a collection of units chosen from the universe to represent it.

Gerstman (2003) stated that a sample was needed because a study that is insufficiently precise or lacks the power to answer research questions is a waste of time and money. A study that collects too much data is also wasteful. Therefore, before data was collected, it was essential to determine the sample size requirements of the study.

Beck and Polit (2003) clearly stated that it is more practical and less costly to collect data from a sample than from an entire population. Various methods of obtaining samples were available. These methods vary in cost, effort, and skills required, but their adequacy was assessed by the representativeness of the selected sample.

Johnson (2002) stated that properly taken samples enable an accurate portrayal of the research population while avoiding the prohibitive costs of surveying everyone. This study used stratified random sampling. Stratified random sampling used in each firm to form two strata’s.

The strata of senior management and middle level management each of the two strata simple random sampling was done to identify individual respondents who were issued with a questionnaire to respond to the research statements. The sample size was 34 top level management and 102 middle level management resulting to 136 respondents

Instruments

The study used both primary data as well as secondary data. Primary data according to Mugenda & Mugenda (2003) is the data collected directly from first-hand experience which have not been subjected to processing or any other manipulation. In this regard, secondary data will be analyzed and evaluated from the published financial statements. Further, questionnaires used to independently get responses on the effect of various investment appraisal methods on shareholders wealth. The questionnaires used were semi-structured. The questionnaires had both closed questions and a few open-ended questions.

Data Collection Procedure

The study sought an introductory letter from Jomo Kenyatta University of Agriculture and Technology. This was used to get a permit from National Commission for Science Technology and Innovation (NACOSTI). This was then presented to the listed firms of Nairobi Securities Exchange authorized the study. The data’s were scheduled to administer questionnaires to top level management and middle level management.

Pilot Test

Pilot testing of the data collection tools was done. It was important since it helped identify weaknesses in the data collection tools the piloting was done using 10 respondents randomly selected from the 57 firms listed in Nairobi Security Exchange the 10 were not included in the actual study. This was before the questionnaires was administered it had to undergopilot testing this was to reveal whether the target population was able to comprehend and give information needed. The questionnaires were distributed to the respondents directly and collected later.

Validity is a measure of the degree to which data obtained from the instruments accurately and meaningfully represents the theoretical concept and in particular how the data represents the variables Kothari (2004). Validity was tested through discussions with the supervisor and colleagues’ that had done masters. The advice guided the researcher to revise the instrument accordingly.

Reliability is the measure of the degree to which a research instruments yields consistently the same results after a repeated trials Mugenda & Mugenda (2003) tests- retest technique was done to test reliability of the instruments. It involved administering the same instrument twice within two weeks. Cronbach Alpha coefficient was used to test reliability. A coefficient of more than 0.7 indicated that the instrument was reliable.

Data Processing and Analysis

The data analysis is the process of simplifying data in order to make it comprehensive Frankel & Wallen (2000) the study adopted both qualitative and quantitative analysis. This was because the data being analyzed was both numerical and textual.
The data was checked for accuracy, completeness of recording errors and omission. The data that was obtained from the questionnaires were primarily qualitative and were analyzed using multiple linear regressions to identify the level of statistical significance of independent variables on the dependent variable.

According to IBM (2010) multiple linear regressions is useful in situations where there are more than two independent variables and the dependent variable is categorical. Data was tabulated using software program for social sciences (SPSS version 20) to develop charts that allowed easy interpretation, conclusion and recommendation.

The instrument that was used in the study was majorly secondary data and questionnaires. T-test was used to test the significance of the overall model at a 10 percent confidence level as shown below.

\[ Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + e \]

\[ \beta_0 = \text{constant} \]
\[ \beta_1 = \text{asset allocation investment} \]
\[ \beta_2 = \text{market timing} \]

**IV. Research Findings And Discussion**

The study sought to find out the effects of investment appraisal methods on the shareholders' wealth for companies listed in Nairobi Securities Exchange. This chapter endeavored to present, discuss and interpret the findings of the study. The findings were presented according to the research objectives that were formulated in Chapter One. Questionnaires were used for collecting data from the respondents.

The collected data was sorted so as to remove the incomplete questionnaires and to facilitate coding. Quantitative data was then keyed into SPSS version 20 for analysis while qualitative data was put into theme categories that presented the situation as reported by the respondents. Both quantitative and qualitative were analyzed and presented by use of frequencies and percentages, through tables and figures.

**Response Rate**

The researcher issued 57 questionnaires to the respondents and 51 were well filled and returned. This represented an 89.5% response rate. According to Babbie (1990), a response rate of 60% is good, 70% very good and 50% adequate for analysis and reporting from manual surveys. Bailey (1996) sets the adequacy bar at 75% and Chen (1996) argues that the larger the response rate, the smaller the non-response error.

**Background Information of the Respondents**

The study sought to find the background information of the respondents. Although it was not part of the purpose of the study, this set of data was intended to describe demographic variables of the sample and to assess for any influence on the research findings.

**Gender of the respondents**

The study sought to find out the gender of the respondents. The findings were presented in Figure 4.1. From the figure 66.7% of the respondents were male while 33.3% were female. Therefore, the findings of this study can be generalized to either or both genders as there was adequate representation from each.

**Role the respondents play in the investments in their companies**

The research sought to establish roles that respondents play in the investments in their respective companies. The findings were summarised in Figure 4.2, from which a majority were either Finance Managers Specialist or Investment Specialist, each with 41.2%. Top Management was represented by 17.6% of the respondents. Therefore, the data collected is rich in information as opinions of the most relevant people in the study were sought.
Effects of Investments Appraisal Methods on Shareholders Wealth for Companies Listed In ....

2: Roles played by the respondents in the investments in the companies

Years of experience of the respondents

The study went out to find the experience in terms of years that respondents had in investments. The findings were tabulated in Table 4.1. From the table, a majority (51.0%) of the respondents had 5-10 years of experience, 31.4% had more than 10 years in experience and 17.6% had less than 5 years in investment experience. Since the majority of the respondents had over 5 years of experience, then the data collected could be said to be very relevant to the concepts sought through the questionnaire.

Table 1: Respondent’s years of experience in investment

<table>
<thead>
<tr>
<th>Experience</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5 years</td>
<td>9</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>5-10 years</td>
<td>26</td>
<td>51.0</td>
<td>68.6</td>
</tr>
<tr>
<td>above 10 years</td>
<td>16</td>
<td>31.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Determining the Effect of Asset Allocation on Shareholder Wealth for the Companies Listed in the Nairobi Securities Exchange

The research sought to determine the effect of asset allocation on shareholder wealth for the companies listed in the Nairobi Securities Exchange. The findings were summarized and discussed under this section.

Undertaking investment in stocks as an asset allocation method in order to build shareholders wealth

The study sought to establish if the companies undertook an investment in stocks as an asset allocation method in order to build shareholders wealth. The findings were presented in Figure 4.3. The figure shows that a bigger majority (94.1%) of the respondents said that their companies undertook investments in stocks as an asset allocation investment method, while only 5.9% said that their companies did not.
2 Undertaking of investment in bonds as an asset allocation investment method in order to build shareholders wealth

The study sought to find out whether the companies undertook an investment in bonds as an asset allocation method in order to build shareholders wealth. The findings were presented in Figure 4.4. From the figure, a majority (88.2%) of the respondents said that their companies undertook investments in bonds as an asset allocation investment method, while only 11.8% said that their companies did not.

3 Effects of the asset allocation investment method on shareholders wealth

The study sought to establish the effects that asset allocation investment methods had on shareholders wealth. The findings were summarized in Table 4.2. The table shows that 80.4% of the respondents said that
Investment in Stocks increases shareholders wealth while 19.6% said it decreases. 90.2% said Offshore Investments increases shareholders wealth while 9.8% said it decreases. 60.8% said Investment in a Modern Portfolio increases shareholders wealth while 39.2% said it decreases. 54.9% said Investment in Bonds increases shareholders wealth while 45.1% said it decreases.

<table>
<thead>
<tr>
<th>Asset Allocation Investment Methods</th>
<th>Decrease F</th>
<th>Decrease %</th>
<th>Increase F</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Stocks</td>
<td>10</td>
<td>19.6</td>
<td>41</td>
<td>80.4</td>
</tr>
<tr>
<td>Offshore Investments</td>
<td>5</td>
<td>9.8</td>
<td>46</td>
<td>90.2</td>
</tr>
</tbody>
</table>

**Investment theories in stock and how they affect shareholders wealth**

The study sought to establish ways in which investment theories in stock affect shareholders wealth. The findings of the study were tabulated in Table 3. From the table, 52.9% of the respondents agreed that there had been a positive relationship between investments in stock and shareholders wealth in the last five years. A simple majority (58.8%) strongly disagreed that there had been a negative relationship between investments in stock and shareholders wealth for the last five years. Further, 58.8% of the respondents agreed that offshore investments had had an effect on shareholders wealth in NSE.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree F</th>
<th>Strongly disagree %</th>
<th>Disagree F</th>
<th>Disagree %</th>
<th>Neutral F</th>
<th>Neutral %</th>
<th>Agree F</th>
<th>Agree %</th>
<th>Strongly agree F</th>
<th>Strongly agree %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a positive relationship between investment in stock and shareholders wealth in the last five years</td>
<td>1</td>
<td>2.0</td>
<td>6</td>
<td>11.8</td>
<td>0</td>
<td>0</td>
<td>27</td>
<td>52.9</td>
<td>17</td>
<td>33.3</td>
<td>100.0</td>
</tr>
<tr>
<td>There has been a negative relationship between investment in stock and shareholders wealth for the last five years</td>
<td>30</td>
<td>58.8</td>
<td>13</td>
<td>25.5</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>15.7</td>
<td>12</td>
<td>23.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Offshore investments had had an effect on shareholders wealth in NSE</td>
<td>1</td>
<td>2.0</td>
<td>8</td>
<td>15.7</td>
<td>0</td>
<td>0</td>
<td>30</td>
<td>58.8</td>
<td>12</td>
<td>23.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Effect of Market Timing Method on Shareholders Wealth for the Companies Listed in the Nairobi Securities Exchange**

The research sought to find out the effect of market timing method on shareholders wealth for the companies listed in the Nairobi Securities Exchange. The findings were summarized and discussed under this section.

**Company undertaking of market timing to build shareholders wealth**

The study sought to find out if the companies undertook market timing to build shareholders wealth. The findings of the study were summarized in Figure 4.5. From the figure, 72.5% of the respondents said that their companies undertakes market timing to build shareholders wealth while 27.5% of the respondents said that their companies did not.
Effect of market timing and shareholders wealth

The research sought to establish the effect that market timing had on shareholders wealth. The findings were summarized in Table 4.4. From the findings, 45.1% of the respondents agreed that there had been a positive relationship between market timing and shareholders wealth in the last five years. A majority (51.0%) disagreed that there had been a negative relationship between market timing and shareholders wealth for the last five years. 51.0% strongly agreed that market timing investment method had had an effect on shareholders wealth in NSE.

Table 4: Descriptive on effect of market timing and shareholders wealth

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>There has been a positive relationship between market timing and shareholders wealth in the last five years</td>
<td>2</td>
<td>3.9</td>
<td>7</td>
<td>13.7</td>
<td>0</td>
<td>23</td>
</tr>
<tr>
<td>There has been a negative relationship between market timing and shareholders wealth for the last five years</td>
<td>19</td>
<td>37.3</td>
<td>26</td>
<td>51.0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Market timing Investment Method has an effect on shareholders wealth in NSE</td>
<td>1</td>
<td>2.0</td>
<td>3</td>
<td>5.9</td>
<td>0</td>
<td>21</td>
</tr>
</tbody>
</table>

Multiple Linear Regression Analysis of Dependent Variable (Shareholders Wealth for the Companies Listed In NSE) and Independent Variables

Multiple linear regression analysis was done to find out the influence of independent variables (Asset allocation and Market timing method) on the dependent variable (Shareholders wealth for the companies listed in NSE). Cooper and Schindler (2011) posit that regressions analysis shows the change in the dependent variable that can be explained by the independent variables. The findings of the study were tabulated and discussed under this section.

Beta regression coefficients were computed to indicate the magnitude or strength of effect of the independent variables on the dependent variable. The findings were summarized in Table 4.8. The tables shows that, for every unit change in Shareholders wealth for the companies listed in NSE, Asset allocation, Market timing method, Fundamental/Technical analysis investment method, and Modern portfolio investment method contributes .695, 1.356, 1.284 and -.046, respectively when all other factors are kept constant. Furthermore, the contributions are all statistically significant (p-value is less than .05). Hence the regression model is:

\[
SHW = 2.108 + 0.695X_1 + 1.356X_2
\]

Coefficients table of dependent variables (Shareholders wealth for the companies listed in NSE) and independent variables

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.108</td>
<td>2.393</td>
<td>.881</td>
<td>.007</td>
</tr>
<tr>
<td>Asset allocation</td>
<td>.695</td>
<td>.134</td>
<td>.089</td>
<td>.708</td>
</tr>
<tr>
<td>Market timing method</td>
<td>1.356</td>
<td>.185</td>
<td>.230</td>
<td>1.928</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Shareholders wealth for the companies listed in NSE

Hence the resultant regression model is:

Model summary of the dependent and independent variables

From Table 4.9, 86.2% (R Square = .862) of Shareholders wealth for the companies listed in NSE could be explained by the independent variables Asset allocation, Market timing method, Fundamental/Technical analysis investment method, and Modern portfolio investment method, when other factors were kept constant.
Table 5: Model Summary Table of Shareholders wealth for the companies listed in NSE and independent variables

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.928*</td>
<td>.862</td>
<td>.856</td>
<td>2.072</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Asset allocation, Market timing method,

Anova Table 4.6 shows the statistical significance of the model. From the table, the model is statistically significant since \( p < .05 \) (Sig. = .001). This means that there is positive relationship between the dependent variable (Shareholders wealth for the companies listed in NSE) and the independent variables (Asset allocation, Market timing method).

Table 4.10: Anova Table of dependent variables (Shareholders wealth for the companies listed in NSE) and independent variables

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1100.000</td>
<td>1</td>
<td>1100.000</td>
<td>13.220</td>
<td>.001*</td>
</tr>
<tr>
<td>Residual</td>
<td>3245.122</td>
<td>39</td>
<td>83.208</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4345.122</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Shareholders wealth for the companies listed in NSE
b. Predictors: (Constant), Asset allocation and Market timing investment method

V. Summary, Conclusions And Recommendations

This chapter presents a summary of the findings, discussion, conclusions and recommendations for practice and further research on the problem. The general objective of this study was to establish the effect of investments appraisal methods on the shareholders wealth in Nairobi Securities Exchange.

The study also sought to determine the effects of asset allocations and market timing on shareholders wealth for NSC.

Summary

Asset allocation and investment appraisal methods

The study sought to find out whether the companies undertook an investment in bonds as an asset allocation method in order to build shareholders wealth. The study established that investment appraisal methods was affecting the asset allocation findings as presented in Figure 4. From the figure, a majority (88.2%) of the respondents said that their companies undertook investments in bonds as an asset allocation investment method, while only 11.8% said that their companies did not.

The study also sought to establish the effects that asset allocation investment methods had on shareholders wealth. The findings were summarized in Table 2. The table shows that 80.4% of the respondents said that InvestmentinStocks increases shareholders wealth while 19.6% said it decreases. 90.2% said OffshoreInvestments increases shareholders wealth while 9.8% said it decreases. 60.8% said InvestmentinamodernPortfolio increases shareholders wealth while 39.2% said it decreases. 54.9% said InvestmentinBonds increases shareholders wealth while 45.1% said it decreases.

MarketTimingMethodon Shareholders Wealth

The research sought to find out the effect of market timing methods on shareholders wealth for the companies listed in the Nairobi Securities Exchange. The findings were summarized and discussed under this section. The study sought to find out if the companies undertake market timing to build shareholders wealth. The findings of the study were summarised in Figure 4.4. From the figure, 72.5% of the respondents said that their companies undertakes market timing to build shareholders wealth while 27.5% of the respondents said that their companies do not.

The research sought to establish the effect that market timing had on shareholders wealth. The findings were summarized in Table 4. From the findings, 45.1% of the respondents agreed that there had been a positive relationship between market timing and shareholders wealth in the last five years. A majority (51.0%) disagreed that there had been a negative relationship between market timing and shareholders wealth for the last five years. 51.0% strongly agreed that market timing investment method had had an effect on shareholders wealth in NSE.
VI. Conclusions

There has been a positive relationship between investment in stock and shareholders wealth in the last five years, in addition there has been a negative relationship between investment in stock and shareholders wealth for the last five years offshore investments has had an effect on shareholders wealth in Nairobi Securities Exchange.

There has been a positive relationship between market timing in stock and shareholders wealth in the last five years, furthermore, there has been a negative relationship between market timing and shareholders wealth for the last five years market timing investments methods has had an effect on shareholders wealth in Nairobi securities exchange.

The findings of the study as discussed From Table 4.9, 86.2% (R Square = .862) of Shareholders wealth for the companies listed in NSE could be explained by the independent variables Asset allocation, Market timing method, when other factors were kept constant. It was further discussed in Table 6 which showed the statistical significance of the regression model which was significance for testing the correlation analysis of the variables this means there is a positive relationship between the dependent and the independent variables since p < .05 (Sig. = .001). This also meant that the methods used should be rejected and instead the alternative appraisal methods sought.

VII. Recommendations

The study established that asset allocation as investment appraisal methods affects positively shareholders wealth for companies listed in Nairobi Securities Exchange. The study therefore recommends that companies should employ the asset allocation as an investment appraisal method.

The study established that Companies listed in Nairobi Securities Exchange should use Market timing as a strategy of buy or sell decisions of financial assets as this would increase returns by predicting future market price.

Suggestion for Further Research

This study sought to establish the effects of investment appraisal methods on shareholders wealth for firms listed in Nairobi Securities Exchange, the finding of the study cannot be conclusively generalized to other financial institutions in Kenya without considering other factors especially the ones not listed at the investment appraisal methods.

Moreover, this study recommends that further studies be conducted on the effects of profitability of appraisal methods on shareholders wealth in Kenya since this study covered investment appraisal method.

This study was done only on all companies operating in the quoted securities exchange in Nairobi Security Exchange as at 31st Dec. 2013. There should be a study replicated in other sectors of the companies not listed in the Nairobi Securities Exchange and also similar research can be done for other stock exchange in other countries.

References


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