EFFECT OF INVESTMENT PORTFOLIO CHOICE ON THE FINANCIAL PERFORMANCE OF INVESTMENT COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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ABSTRACT

Investment is a fundamental financial decision that both businesses and the general public ought to be aware of. Nonetheless, it is imperative to reminisce that every decision has consequences. The effect of investment portfolio choice on the financial performance of investment companies listed at the Nairobi Securities Exchange was investigated in this research study. Specifically, the study endeavored to investigate the effect of investment in bonds, investment in equities, and investment in real estate on the financial performance of investment companies listed at the Nairobi Securities Exchange. The modern portfolio theory, the efficient market hypothesis, the behavioral finance theory, the liquidity preference theory and financial intermediation theory informed this research study. Secondary data was used in this research. The study adopted a descriptive research design in analyzing the effects of the study variables. Several diagnostic and correlations tests were conducted before ultimately running the multiple linear regression model used in modeling the results of this study. The correlation results indicated a strong positive relationship between investment in bonds, equities and real estate with financial performance. Hypothesis testing at 5% level of significance established a significant effect on investment in bonds and investment in real estate, thus leading to the rejection of H01 and H03, while H02 was accepted. It was concluded that investment in bonds and real estate significantly affect the financial performance of investment companies listed at the Nairobi Securities Exchange. Thus, close monitoring and awareness creation to investors, governments and the general public around these variables is paramount for informed investment decision making.

Keywords: Investment; Portfolio; Nairobi Securities Exchange (NSE); Diversification; Financial performance (FP).

INTRODUCTION

Investment decision is one of the underlying financial decisions undertaken by finance managers, others being financing decisions and dividends decisions. Investment involves forgoing current consumption in favor of future consumption with a view to wealth maximization (Lamichhane, 2021). Investment companies are financial intermediaries, and their main function is to invest pooled together capital from various investors into financial securities commonly referred to as portfolios (Chepkorir, 2019). These companies trade in bonds, equities, real estate, cash, and other assets in the financial market on behalf of their investors.

Choosing among the various financial securities to invest in is fundamental for the performance of the investment companies (Kimeu, 2015). Investing in high return investments not only procures the continued survival of these entities but also increases their credibility and consequently attracts more investors. Several studies have been undertaken across the globe regarding investment portfolios and financial performance. For instance, studies by ((Ateya, 2020) ; (Lamichhane, 2021) ; (Kiboi & Bosire, 2022) and (Kimeu, 2015) focused efforts on undertaking various studies on investment portfolios and financial performance. Nonetheless, it must be comprehended that making the right investment choices may not be a walk-in park, due to information asymmetry and the fact that the choices made have consequences. This study endeavored to unravel the effect of investment portfolio choice on the financial performance of investment companies listed at the Nairobi Securities Exchange.

Statement of the problem

As our country Kenya races towards becoming a middle-class economy, several industries ought to up their game by increasing capacity in job and wealth creation so as to instigate and sustain the required development pace. One of the major vehicles to catapult an economy to financial affluence is an investment (Makau & Jagongo, 2018). Huge investments have been witnessed across the country with regard to infrastructure and other major capital investments such as the standard gauge railway (SGR) and the construction of the Lamu Port. The government has also floated several bonds for the public to invest such as the Eurobond and the M-Akiba bond. Devolved governments in Kenya are also following suit by floating infrastructure bonds so as to aid in their developments. The first county to have its request approved was Laikipia county on May 13th 2022 for KES 1.16 billion Bond.

Though the campaign to invest as an avenue of wealth creation is on the upsurge in the country, little is known by the general public about investment companies and the investment portfolios they offer, which is the intent of this current research, which is undertaken so as to shed more light on the portfolio choices as well as their consequences. Investment companies are tasked with the mandate of investing pooled resources by various investors into the numerous investment avenue at their disposal (Kimeu, 2015) Now, due to the financial markets' volatility, it is not always guaranteed that the investments undertaken by the investment companies will yield positive and high returns to the investors (Obiero, 2019) Again, the choice of the investment portfolio which may include investment in bonds, investment in equities, investment in real estate or investment in cash may have its fair share of consequences to the monetary performance of the investment companies (Kimeu, 2015) This study endeavored to analyze the effect of investment portfolio choice on the financial performance of listed investment companies at the Nairobi Securities Exchange.

Objectives & Hypothesis of the Study

Investigating the effect of investment portfolio choice on the financial performance of investment companies listed on the Nairobi Securities Exchange was the chief objective of this research. Specifically, the researchers undertook to examine the effect of investment in bonds, equities, and real estate on the financial performance of investment companies listed at the Nairobi Securities Exchange.

The hypothesis guiding this research study were stated in the following manner:

H_{01}: Investments in bonds has no significant effect on the financial performance of investment companies listed at the Nairobi Securities Exchange

H_{02}: Investment in equities has no significant effect on the financial performance of investment companies listed at the Nairobi Securities Exchange

H_{03}: Investment in real estate has no significant effect on the financial performance of investment companies listed at the Nairobi Securities Exchange

Significance of the Study

This study is geared towards generating information which will be instrumental to governments and the general public and other stakeholders with regard to investment decisions effect on the FP of the investment companies listed at the NSE.

Scholars will also benefit from this research, as the research will add current literature to the existing ones. Also, the recommendations from this study will form a basis for future studies.

LITERATURE REVIEW

The Modern Portfolio Theory (MPT)

The MPT theory was first propounded by Harry Markowitz in the 1960s (Kiboi & Bosire, 2022) The theory postulates investors to be risk averse, and that out of the risky assets at an investor's disposal, an effective optimal portfolio can be molded (Kamwaro, 2013) The theory further argues that investors diversify their risk exposure of the optimal portfolio they hold by leveraging with risk-free assets in their portfolio such as government bonds (Obiero, 2019) The theory informs investment companies to diversify the investments avenues at their disposal so as to reap maximum return on their investments (Not putting your eggs in one basket) (Kenga & Banafa, 2019)

The Liquidity Preference Theory

This theory was first put-forward by John Maynard Keynes in the 1930s and it postulates that investors prefer holding highly liquid assets in their portfolio (Kenga & Banafa, 2019) The liquidity preference appreciated by investors is as a result of either the speculative motives, precautionary motive or the transitionary motive (Kenga & Banafa, 2019) The theory supports the study in that investors require investments securities which can easily be converted to cash so as to enable them sort out their financial obligations as and when they fall due (Kiboi & Bosire, 2022) The same author holds that liquidity in the investment portfolio held by investors may came in handy when investments with high yield prospects come their way.

Efficiency Market Hypothesis (EMH)

The efficient Market Hypothesis (EMH) was first propounded by Famma in the 1980s (Kenga & Banafa, 2019). The theory expounds on 3 circles with regard to information circulation to investors and the general public, that is a weak circle, semi-strong circle and the strong circle (Kenga & Banafa, 2019) The theory is vital to investors since information is power and it is required that investors receive sufficient information regarding investment securities so as to make sound investment decision.

The Financial Intermediation Theory

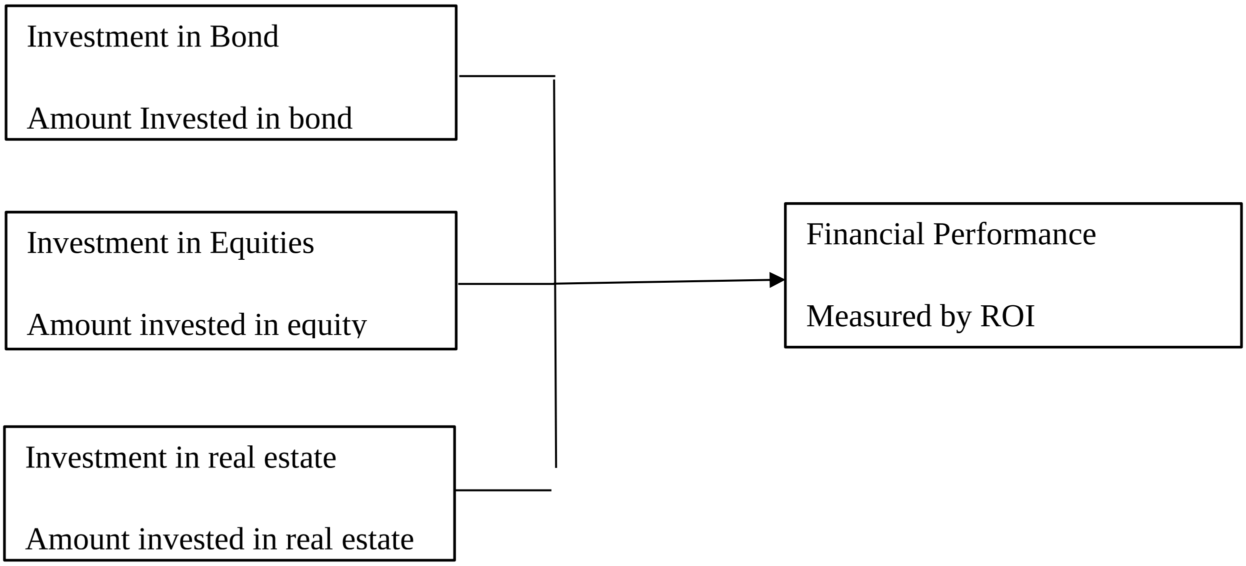
This theory was first propounded through the works of Gurley and Shaw in the 1960s (Kamwaro, 2013) This theory exists in the premises of information asymmetry and agency theories, in that the information required by individual investors may not be available at the required time and the cost of acquiring that information is high (Kamwaro, 2013) Financial intermediation provides a platform where the surplus and deficit individuals in an economy get their financial needs satisfied (Kamwaro, 2013) This theory is important to this study as it forms the base of the study, since all the investment companies which is the focal point of this research fall in the financial intermediary’s category.

Behavioral Finance Theory

The behavioral finance theory undertakes to explain the logical patterns and the physiological effects of investors in their decision-making process, this theory expounds on the how, what and why of financing an investment (Seetharaman, Indu, Nitin, & Amit, 2017) This theory is significant in this current study as it outlines the what, why, how investments companies select various investment portfolios at their disposal to invest in which have inherent effects on their financial performance.

Conceptual Framework

Independent Variables **Dependent Variable**



Source: Author

Empirical Literature Review

In Nepal, (Lamichhane, 2021) researched on investment diversification and monetary performance of commercial banks. The research established that investment in government securities and bonds positively affected the performance of commercial banks in Nepal. The research also established that real estate investments negatively affected Nepal's commercial banks financial performance.

In Singapore, (Seetharaman, Indu, Nitin, & Amit, 2017) studied the factors affecting the choice of investment portfolio by an individual investor and concluded that investment objective, and asset familiarity significantly affected the behavior of individual investors which in turn affected their portfolio choice. The study used the partial least square technique in hypothesis testing.

In Kenya, (Obiero, 2019) conducted an investigation regarding portfolio diversification and financial performance of investment companies at the NSE. The researcher found that investments in bonds, investment in equities and investment in real estate significantly affected the FP of investment companies listed at the NSE.

Likewise, (Nyaro, 2015) investigated the association amid portfolio holdings and FP of insurance companies in Nairobi County. The study concluded that government securities' as well as real estate investments positively affected the FP of insurance companies at Nairobi County.

On the other hand, (Makau & Jagongo, 2018) studied 5 investment companies listed at the Nairobi Securities Exchange and found a positive significant effect on investment in bonds, investment in real estate, and investment in equities against financial performance.

Similarly, (Kimeu, 2015) studied portfolio composition and financial performance of investment companies listed at the NSE. Analysis of data was through the statistical package for social sciences (SPSS). The results indicated that bonds investments influenced the FP of the investment companies listed at the NSE positively.

Research Gap

From the above literature review, it was evident that the researchers did not congruently address the hypothesis regarding the effect of investment portfolio choice on the financial performance of investment companies listed at the NSE, which is the ultimate intent of this current study. It was also evident that a current study was paramount in order to incorporate current affairs in the investment industry.

METHODOLOGY

This study employed a descriptive research design in undertaking the research. Secondary data collection instruments were employed in collecting data regarding the study variables. Financial statements were obtained and analyzed from the investment companies listed at the NSE so as to gather data regarding the study variables which include bonds, real estate and equities as well as their financial performance.

Measurement of variables

Table 1. Measurement of variables

Variables	**Variables measurement Approach**
Financial Performance	Return on Investments (ROI)
Bonds	Amount invested in Bonds
Equities	Amount invested in Equities
Real Estate	Amount invested in Real Estate

Source: Author

Data Processing and Analysis

The raw data was confirmed, coded and run in the Statistical package for social sciences (SPSS) so as to general tabulated reports, descriptive statistics, inferential statistics as well as the regression coefficients. Correlation analysis was conduct so as to determine the association between the study variables. The regression analysis model fitness testing was through F-test, and finally, the coefficient generated from the model were interpreted and decision made on whether to accept or reject the null hypothesis at 5% level of significance. The multiple linear regression model was developed in the following manner:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

Where:

Y is the predetermined value of the independent variable (Financial Performance)

β0 is the Y intercept (Predictable value of Y when X is Zero)

β1, β2, and β3 are the regression coefficients (How much we anticipate Y to change as X changes)

X1, X2, and X3 are the independent variables.

ε is the error term.

RESULTS AND DISCUSSION

The sections present data analysis, research findings and discussion of the results using methods described in the previous section.

Descriptive Statistics

Table 2 Descriptive Statistics

	Financial Performance	*Investments in Bonds*	*Investment in Equities*	*Investment in Real Estate*
Mean	0.421	0.462	2.348	1.148
Standard Error	0.155	0.074	0.728	0.495
Median	0.191	0.275	0.093	0.366
Standard Deviation	0.761	0.364	3.566	2.424
Sample Variance	0.580	0.132	12.718	5.873
Kurtosis	2.358	-1.506	0.167	11.733
Skewness	1.406	0.448	1.265	3.339
Range	3.460	1.034	10.600	10.820
Minimum	-0.828	0.037	0.006	0.026
Maximum	2.632	1.071	10.606	10.845
Sum	10.100	11.078	56.351	27.544
Count	24	24	24	24
Confidence Level (95.0%)	0.322	0.154	1.506	1.023

Source: Author

The mean for financial performance was 0.421, whereas 0.462, 2.348 and 1.148 were the mean for investment in bond, equities and real estate respectively. The median for financial performance was 0.191, whereas 0.275, 0.093, and 0.366 were the median for investment in bonds, equities and real estate respectively. These results indicate that the data was skewed to the right that's why the mean was greater than the median.

Correlation Analysis results

Table 3 Correlation Coefficients of Investment Choices against Financial Performance

	Financial Performance	*Investment in Bonds*	*Investment in Equities*	*Investment in Real Estate*
Financial Performance	1			
Investment in Bonds	0.599294271	1		
Investment in Equities	0.255006174	0.557657715	1	
Investment in Real Estate	0.505084327	0.459178804	0.597685041	1

Source: Author

Relationship between investment portfolio choice and financial performance

The correlation results indicated a significant positive relationship between investment in bonds and financial performance of the investment companies listed at the Nairobi Securities Exchange. The results indicated that a unit increase in investment in bonds leads to a corresponding increase in financial performance by 0.599 units.

The results also showed a positive association amid investments in equities and financial performance of 0.25 units increase for every unit increase in investment in equities. Finally, a unit upsurge in real estate led to 0.50 units upsurge in financial performance.

Reliability Test

Table 4 Regression Statistics

Regression Statistics	
Multiple R	0.696530072
R Square	0.485154142
Adjusted R Square	0.407927263
Standard Error	0.585851071
Observations	24

Source: Author

The adjusted R square from the regression statistics table of 0.4079 indicates that over 40% of the variability of financial performance of the investment companies listed at the NSE could be attributed to investment in bond, equities and real estate. This means that, the regression analysis model used in this study was reliable.

Test of Significant

Table 5 ANOVA Table

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	6.468550474	2.156183491	6.282192797	0.003528552
Residual	20	6.864429542	0.343221477		
Total	23	13.33298002			

Source: Author

The significance F from the ANOVA table 5 was used to test the overall fitness of the model. The F value of 0.00035 which is less than 0.05; (0.00035 < 0.05), this implies that the regression model used in this study was fit and statistically significant.

Regression Analysis Model

Table 6 Regression Analysis Table

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	-0.134249974	0.196304741	-0.683885541	0.501895074
Investments in Bonds	1.221978951	0.411844178	2.967090505	0.007619231
Investment in Equities	-0.070511399	0.046565804	-1.514231335	0.145611419
Investment in Real Estate	0.136440131	0.064026873	2.130982258	0.045687742

Source: Author

The P-Values from the regression analysis table 6 were used to test the null hypothesis at 0.05 level of confidence (If P-value<0.05, reject the null hypothesis and accept the alternate hypothesis)

Table 7 Hypothesis Testing

Hypothesis	**P-Value**	**Decision rule**
H_{01}: Investment in Bonds has no significant effect on the FP of Investment companies listed at the NSE	0.0076	Reject H_{01}, Since 0.0076<0.05
H_{02}: Investment in equities has no significant effect on the FP of Investment companies listed at the NSE	0.1456	Accept H_{02}, Since 0.1456>0.05
H_{03}: Investment in Real Estate has no significant effect on the FP of Investment companies listed at the NSE	0.0456	Reject H_{03}, Since 0.0456<0.05

Source: Author

Discussion of Results and Findings

The ultimate goal of the research was to investigate the effect of investment portfolio choice on the financial performance of investment companies listed at the NSE. Data analysis was through regression, and the coefficients generated were used to test the hypothesis at 0.05 level of significance and decision made on whether to accept or reject the null hypothesis.

The correlation results in table 3 indicated a positive significant relationship of 0.599 between investment in bonds and FP of the investment companies listed at the NSE. The investment in bond p-value of 0.0076 from the regression model which was less than 0.05 informed the rejection of H01. The rejection of H01 indicated that investment in bonds has a significant effect on the FP of investment companies listed at the NSE. The results were consistent with the findings of (Kimeu, 2015) who found a positive significant effect on investment in bonds against FP of listed investment companies at the NSE. Similar findings were also obtained in Nepal by (Lamichhane, 2021)

The correlation results in table 3 showed a positive association of 0.255 amid investment in equities and FP of the investment companies listed at the NSE. These results were consistent with the findings of (Makau & Jagongo, 2018), who found a positive significant effect on investment in real estate against FP of listed investment companies. The P-value for investment in equities from the regression model of 0.1456 was greater than 0.05 thus informing the acceptance of H02.

The correlation results of 0.505 from the correlation table 3 indicated a positive significant relationship amid investment in real estate and FP of investment companies listed at the NSE. The P-value for investment in real estate of 0.0456 which was less than 0.05 informed the rejection of H03. The rejection of H03 indicated that investment in real estate has a significant effect on the FP of investment companies listed at the NSE. These results were consistent with the findings of (Nyaro, 2015), who found a positive significant effect on investment in real estate against the FP of insurance companies in Nairobi County.

CONCLUSION AND RECOMMENDATION

The hypothesis testing conducted in the previous section led to the rejection of H01 and H03 respectively, thus indicating that investment in bonds and investment in real estate positively and significantly affect the financial performance of investment companies listed at the NSE. Therefore, investment companies' managers, general public, government and institutions ought to focus intimately on these portfolios since they affect the financial performance of the investment companies listed at the NSE. The study recommends that another study covering a wide range of investment portfolio choices be conducted and on a wide range of industries so as to enable generalize findings.

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