INFLUENCE OF BEHAVIOURAL FINANCE BIASES ON INVESTMENT DECISION OF EQUITY INVESTORS AT NAIROBI SECURITIES EXCHANGE IN KENYA

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DECLARATION

This thesis is my original work and has not been presented for a degree award in any other university.

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DEDICATION

This work is dedicated to my Parents Mr. Patrick Wambua and Mrs. Juliana Nzilani for their moral and financial support in carrying out this thesis study and to my dearly loving siblings for their encouragement and their continuous honorable support throughout.

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LIST OF ABBREVIATION

BF	Behavioral Finance
BRT	Behavioural Reasoning Theory
CAI	Cronbach Alpha Index
CSE	Colombo Stock Exchange
EMH	Efficient Market Hypothesis
ETFs	Exchange –Traded Funds
ISAK	Independent Shareholders Association of Kenya
KMO	Kaiser-Meyer-Olkin
MSM	Mongolian Stock Market
NACOSTI	National Commission for Science, Technology & Innovation
NCM	Nigeria Capital Market
NSE	Nairobi Securities Exchange
OLS	Ordinary Least Squares
PBC	Perceived Behavioral Control
REITs	Real Estate Investment Trusts
SPSS	Statistical Package for Social Science
TUM	Technical University of Mombasa
VIF	Variance Inflation Factor

DEFINITION OF TERMS

Behavioral finance bias	According to Chitra (2020)behavioral finance bias is a prejudice resulting to psychological elements that affect how investors perceive and respond to certain information, which in turn affects their decisions in the financial markets.
Confirmation bias	This is the process of looking for information to confirm a person's predetermined conceptions and ideas (Weixiang, Qamruzzaman, Rui, & Kler, 2022).
Equity investors	Investors are (retail or institutional investors) that invest in a company (whether publicly or privately held) to obtain a financial gain .
Familiarity bias	Familiarity bias describes how affected investors make judgments about their investments and how well-informed they are about a certain investment option .
Investment decision	Investment decision refers to the decisions that involve the investment of various resources of the firm to gain the highest possible return on investment for their investors .
Information processing bias	It means necessity of seeking advice from many resources before taking any decision of buying investment product (Kumar ,2020).
Overconfidence	This is a prejudice that causes investors to overestimate their skills and success quotient and to consider misleading facts,giving the impression that they are superior to others (Čuláková, Kotrus, Uhlírová, & Jirásek, 2017).

ABSTRACT

Behavioral finance techniques look at how irrationality and behavioral bias influence the decisions investors make. Behavioral finance makes use of knowledge from various fields of study to comprehend investor choices. The primary goal of this research was to establish the influence of behavioral finance biases on investment decision of equity investors at NSE in Kenya. The study had four specific objectives; to examine the influence of confirmation bias on investment decision of equity investors at NSE in Kenya, to evaluate the impact of overconfidence prejudice on investment decision of equity stockholders at NSE in Kenya, to determine the influence familiarity bias on investment decision of equity investors at NSE in Kenya, and to establish the influence of information processing bias on investment decision of equity investors at NSE in Kenya. The study was anchored on the following theories; Prospect theory, Regret theory, Behavioral Reasoning theory and the Heuristic theory. Descriptive research design was utilized in this research. The target population was 136 and a sample size of 102. There were two respondents from each firm that is fund manager and a trustee. To gather quantitative data, a survey containing both organized and structured questions was used. Pilot study was done where validity was established and the reliability of the questionnaires was established by Cronbach's alpha formula to attain estimate's reliability. The statistical package for social science, SPSS version 26, was utilized to analyze the data. To determine whether there are any substantial correlations amongst the variables, a multiple regression analysis test was conducted. The results of the research were displayed using graphs and tables. Regression analysis and descriptive correlation were performed, and the results were presented in tables along with relevant interpretation and discussion. In examining the relationship model through regression coefficients, it was found that a 0.106 increase in overconfidence bias led to a unit increase in investment decision. The regression analysis coefficients, derived from the relationship model, illustrated that a 0.187 increase in familiarity bias led to a unit increase in investment decision. The results did not support the null hypothesis at a 95% confidence level, p-value of 0.001 t-value of 2.440, surpassing the critical threshold of 1.96 suggesting a high confidence in this coefficient as a predictor variable. The null hypothesis, indicating no significant influence, was not supported with a high level of confidence 95% due to the low p-value of 0.042, t-value of 2.055 surpassing the critical benchmark score of 1.96. At 95% confidence level, the null hypothesis was not supported, as indicated by an exceptionally low p-value of 0.009, t-value of 2.650, surpassing the critical benchmark score of 1.96. The null hypothesis, which posited no significant influence, was not supported at a 95% confidence level, indicated by an extremely low p-value of 0.000, t-value of 8.177, above the critical score of 1.96. The findings revealed a significant relationship between behavioral finance biases and the investment decision of equity investors at NSE. The study comes to the conclusion that equities investors at the Nairobi Securities Exchange are significantly influenced by information processing bias while making investment decisions. To optimize investment returns, investors must carefully evaluate the characteristics of market competition. The study recommends that, encouraging networking events, fostering mentorship programs, and participating in industry-related associations can help investors build valuable connections and access information that may positively impact investment decision.