THE EFFECT OF INVESTOR PERCEPTION ON SHARE PRICE FLUCTUATIONS AT THE NAIROBI SECURITIES EXCHANGE

Margaret Sasi Okumu

Jomo Kenyatta University of Agriculture and Technology, Kenya

margiesassi@yahoo.com

Abstract

Share price fluctuations is necessary to trigger trading in shares. Investors, become anxious and sideline the stock exchange when share price fluctuations become erratic. Investor perception cause traders to trade frequently based on judgment they make by observing the actions and initiatives of other market participants. The study employed a survey methodology that incorporated a quantitative model to test Analysis of Variance (ANOVA) with the Pearson Chi-Square. Regression Analysis and Cross-Correlation determined the strength of the relationships between investor perception and share price fluctuation at the Nairobi Securities Exchange (NSE). The sampling frame included all technical employees of brokerage firms at the NSE and a sample of 72 participants who provide at least four (4) services that include broking, portfolio management, investment banking and research. The objectives of the research were; investor emotions, investor propensity to imitate others and investor susceptibility to certainty overconfidence. At an observed p-value of 0.028, the researcher concluded that investor perception has significant influence on share price fluctuations at the NSE. Limitations of the current study include the fact that financial behavioral approach is too unstructured to explain any type of psychological bias. The researcher recommends that investment advisors should use active management techniques to ensure their clients live through erratic share price fluctuations and to avoid reactive behavior and initiatives of other market participants. There should be further research on the intertwining of psychology and finance to explain individual investment decision-making.

Keywords: Share Price Fluctuations, Psychological Biases, Loss Aversion, Irrationality, Behavioral Finance

INTRODUCTION

Volatility at the securities exchange is a normal expectation in the short-term (Brigham, Gapenski & Ehrhardt (1990). Investors who wish to take advantage of the market without allowing their emotions to dictate their investment decisions have to understand that the market eventually returns to its appropriate level (Kotze, 2005). Abnormal share price changes may occur without any changes in the fundamental values. Different theories and models such as the efficient market hypothesis (EMH) and the dividend-discounted model tend to contradict each other on actual causes of share price volatility (Kotze, 2005). This paper explored into the effect of investor perception onshare price fluctuations at the NSE.

The Performance of the Nairobi Securities Exchange

The Government of Kenya (GOK), has put many measures in place to improve on the performance of the NSE. Despite all these measures, the NSE has not been a good performer in recent times compared to other emerging stock markets (Chepkoiwo, 2011). Many counters have experienced declining share prices, and this has attracted foreign investors (Kibuthu, 2005). Private capital inflow from the foreign investors improves liquidity and the stock market development (Nyang'oro, 2013). Despite these benefits, foreign capital can cause major challenges for policy makers (IMF, 2010).

Statement of the Problem

This paper investigated into the effect of investor perception on share price fluctuations at the NSE. Erratic share price fluctuations make investors; specifically, local retailers be anxious about the safety of their investment. The investors have responded by sidelining the market, thus creating capital flight and an illiquid market. The NSE index as a measure of price movement has continued to fluctuate in tandem with changing prices of securities (Yenkey, 2007). A glance at a few periods show that in 1994, the NSE 20 share index, the oldest on the exchange was at a high of 5030 points. It fell to an average of 3469 in 1995.The index averaged 1400 points in 2001. In August 2002, the index dipped to a low of 1043 points (Kiremu, Galo, Wagala & Mutegi, 2013). In 2010, the NSE 20 share index, rose by 36.5 percent to close at 4432.6 points from 3247 points in 2009 (Kenya Economic Report, 2011).In the year 2008, the index averaged 3521, in 2007, 5444 and 2006, 5646. The changes in percentage terms vary at -35.3%and -3.6% for 2008 from 2007 and 2007 from 2006 respectively (KNBS, 2011).

Comparative studies, just to mention a few:Aroni (2011), Muthike and Sakwa (2012),Olweny and Omondi (2012) and Kimani (2013) focus on macro and micro-economic variables that cause share price fluctuations. However, they all fail to consider that fluctuations

in share prices may go beyond economic variables, to incorporate actions of some market participants and investor psychological biases. Most of the research on share price fluctuations is on stock markets in developed countries.

Research Objective

The general objective of this study was to examine the effect of investor perception on share price fluctuations at the NSE. Specific objectives were:

1. To determine the effect of investor emotions on share price fluctuations at the NSE.

2. To determine the effect of investor intimacy with investment advisors on share price fluctuations at the NSE.

3. To determine the effect of investor propensity to imitate others on investment decisions, on share price fluctuations at the NSE.

4. To determine the effect of investor susceptibility to certainty overconfidence on share price fluctuations at the NSE

Research Hypotheses

HO1. Investor Emotions have no significant effect on share price fluctuations at the NSE

HO2. Investor Intimacy with investment advisors has no significant effect on share price fluctuations at the NSE

HO3. Investor Propensity to imitate others on investment decisions has no significant effect on share price fluctuations at the NSE

HO4. Investor Susceptibility to certainty overconfidence has no significant effect on share price fluctuations at the NSE

LITERATURE REVIEW

Theoretical Framework

The price of a share, as any other economic indicator may change rapidly from time to time and be said to be volatile. To estimate an indicator that is not stable is challenging not only for investors but also for the economy as a whole (Kotze, 2005). The paragraphs that follow explain the theory on investor perception that impacts share price variations.

Technical Analysis as this explains Investor Perception on Share Price Fluctuation

According to Jones (2007), technical analysis contrasts as EMH contends that past performance has no influence on future market values. The technical analysts believe that the market is its own best predictor such that past price movement will signal future price

movements (Fabozzi et al, 2002). Technical analysts view a change in the price trend being likely to predict a change in the fundamental variables such as earnings and risk. The fundamental analysts perceive such variables to be incorporated in share values(Gifford (1995). The main assumptions that underlie technical analysis in determination of share prices, incorporate the interaction of supply and demand factors (Brenner, 2002). The market has participants who are both rational and irrational, where moods, guesses and opinions dictate trades and prices (Dothan, 1990). Save for minor fluctuations in prices of individual securities, the overall value of the market tends to move in trends that persist for appreciable lengths of time. The trends change in reaction to shifts in the market on supply and demand relationships (Dothan, 1990). According to Hirt and Block (2003), there are various groups participating at the stock market, including corporate insiders, well-informed professionals and average investors. All these market participants receive and perceive information from different sources at different paces.

The technical analysts are concerned with the start of a change in price so that they decide to buy if the trend in price movement is up, or sell if the trend is down. Loeb (2004) argues that short-term trading is much more profitable than long-term investing because this forces an investor into the right shares at the right time. Technical analysis postulates that, prices adjust rapidly such that the profit maximizers would have only a brief moment to benefit from price changes (Fabozzi, 2003).Frequent stock-trading causes the stock market to be volatile.

Conceptual Framework

The research involved the investigation into investor perception on share price fluctuations at the NSE as the dependent variable. Fluctuating share prices represent risk of the share value deviating from their equilibrium values (Mishkin, 2007). Investor perception refers to the reputation the investment community has towards a firm's share and the cognitive biases of investors (Pompian, 2006). Negative reputation and mental errors lead to share price decline (Ware et al, 2006).

Figure 1. Conceptual Framework
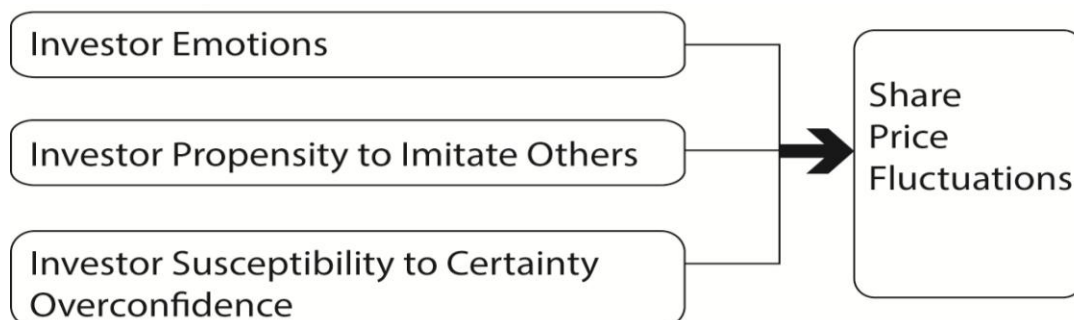
Investor Perception and its Effect on Share Price Fluctuations

According to Ware et al. (2006), standard finance describes people as rational while behavioral finance describes them as normal. Psychology is a force guiding human emotions and cognitive errors on financial decisions (Statman, 2001). Much of economic and finance theory is based on the notion that individuals act rationally and consider all available information in decision-making analysis (Bodie et al, 2008). Behavioral finance disputes rational markets and rational economic decisions. Eugene Fama, one of the pillars of the efficient market school of thought admits that the stock market prices could become somewhat irrational (Hilsenrathy, 2004).

Cognitive and Emotional Biases and their Effect on Investment Decisions

According to Kahneman and Riepe (1998), biases are heuristics or rules of thumb that involve systematic errors in judgment due to beliefs or preferences. Behavioural biases fall into two broad categories including cognitive and emotional biases (Pompian, 2006).Cognitive biases stem from faulty reasoning. Better information and accepting advice from experts correct the biases. Financial advisors may not feel comfortable asking their clients personal questions and so, they let investors to continue distorting market activity outcomes (Ziegler & Skinner, 2006). Some of these investors experience life trauma such as divorce, death in the family and loss of job, which makes them highly emotional. According to Ware et al. (2006), conventional thinking of investment professionals is that emotions hinder investment performance and cloud our thinking and spoil objectivity (Pompian& Longo, 2004).

Researchers differ and argue that emotions and intuition are resources that will greatly improve decision-making and teamwork in an investment (Pompian& Longo, 2004).According to Kahnemann and Tversky (1979), people do not employ statistical methods in their decision-making but rely on a limited number of cognitive biases and heuristic principles that reduce the complex tasks of assessing probabilities. Behavioral finance has two building blocks namely; cognitive psychology and limitations to arbitrage. The former refers to how people think and the latter occurs when the market is inefficient (Glimcher, 2003). Some of the irrationality in investment that results from cognitive psychology includes herd behaviour, mental accounting, over-confidence and self-attribution, gambler's fallacy and anchoring and adjustment (Forsyth, 2006).

Herd Behaviour as it Explains Share Price Fluctuations

According to Barber and Odean (2002), herd behaviour refers to the tendency of individual investors to imitate the actions of a larger group on the precepts that the group cannot be making a mistake in the decisions they take. Individually, most people would not necessarily

make the same choice. People conform to herd behaviour due to social pressure to avoid isolation (Forsyth & Wadsworth, 2006). People monitor their acceptance in groups and have a tendency to prefer affiliation to isolation, inclusion to exclusion and sociality to solitudes (Forsyth & Wadsworth, 2006). Investment groups out-perform single investors in the stock market (Stasser& Dietz-Uhler, 2001). None of us is as smart, compared to all of us together (Myers, 2002).

Mental Accounting as it Explains Share Price Fluctuations

According to Thaler (1993), mental accounting describes people's tendency to code, categorize and evaluate economic outcomes by grouping their assets into any number of non-interchangeable mental accounts. Mental accounts consider that people take irrational steps in treating various sums of money differently based on where these sums are mentally categorized (Thaler, 1993). According to Bailard et al. (1986), the concept of framing is important in mental accounting analysis as people alter their perspectives in framing in respect of money and investments according to the circumstances that surround them.

The portfolio investment is not unitary to obtain an overall risk-return profile (Montier, 2002). There is no regard for potential correlations connecting investments across categories(Reilly & Brown, 2007). Statman (1997) argues that mental accounting is consistent with investors' irrational preference for shares that have high cash dividends. They feel free to spend dividend income and will not take a chance to sell a few shares for capital gain that may be having the same return as shares with high dividends (Schifrin&Statman, 1981).

Investors engage in irrational behaviour such as acquiring a bank loan to invest in the stock market or for some other purpose when at the same time, they have huge savings in their bank accounts (Montier, 2002). An irrational mind creates an irrational stock market (Thaler, 1993). Thaler and Johnson (1990), argue that decision-makers encounter considerable difficulty in closing mental accounts at a loss due to the break-even point effect. Rather than recover to an original entry price, many investors plunge sickeningly to even deeper losses. Investors are reluctant to accept and realize losses because the very act of doing so proves that their first judgment was wrong (Schifrin&Statman, 1985).

Overconfidence and Self-attribution as these Explain Share Price Fluctuations

According to Odean and Gervas (2001), overconfidence is an irrational behaviour that results from the tendency for an individual to exaggerate one's ability, to successfully, perform a particular task. The overconfident tendency is detrimental, in the end if applied in making economic decisions to invest (Fellner, 2004). According to a study carried out by Odean and

Gervas (2001), overconfident investors believe they are better than others and that they can beat the market through their ability to time accurately when to enter and exit the market (Odean&Gervas, 2001). Such investors tend to receive lower yields relative to the market (Ware et al, 2006).

According to Pompian (2006), too many people over-value and under-value what they are not and what they are respectively. Individuals susceptible to certainty overconfidence often trade too much in their accounts and may hold undiversified portfolios (Harvey & Huang, 2003). Such overconfidence tendency may be responsible for the prevalence of active versus passive investment management (Campbell et al, 2003). According to Barber and Odean (2001), men in particular, single men trade far more than women do. In psychology literature, men are more confident than women are (Ware et al, 2006).

Gambler's Fallacy as it Explains Share Price Fluctuations

According to Goodman (1995), gambling is a luck business where investors use misleading information to make decisions for economic benefits. There is a desperate scramble to find quick returns to beat other market participants (Goodman, 1995). In pursuit of answers to tough decisions that will provide economic salvation, investors have a tendency to rely on economic ventures of chance (Breinholt&Dalrymple, 2004). Gambling and chance have a high potential of resulting in losses similar to those suffered by unsuccessful bettors (Montier, 2002).

Gambling is indeed, "a fool's" game as players scramble to neutralize losses (Goodman, 1995). It is severe if gambling becomes addictive to compare to neuropsychological disorder (Goodman, 1995).According to Goodman (1995), a good poker player knows that one thing he should never do is chase after his losses in the hope of reversing his luck. The player who "chases" after losses becomes as obsessed with winning that he starts making mistakes (Gilovich, 1993). He takes bad risks or stays in games where he should have folded.

Anchoring and Adjustment as these Explain Share Price Fluctuations

According to Kahneman and Riepe (1998), anchoring is a cognitive bias that involves mental processes that engage knowledge representation for people to estimate a value with unknown magnitude. People are better at estimating relative comparatives rather than absolute figures (Northcraft& Neal, 1987).Purchase points or arbitrary price levels or price indexes influence investors who exhibit this bias (Kahneman et al., 1982). They stick to these numbers as they decide whether to buy or sell securities (Lichtenstein et al, 1980). In situations where a purchase price becomes an anchor, a price rise to extremely high levels followed by a fall,

which is relatively higher than the purchase price makes investors experience conflicting emotions (Statman& Fisher, 2000).

According to Dothan (1990), investment professionals are not immune from the effects of anchoring and adjustment biases as observed from analysts plotting patterns in securities' earnings variations. The analysts upgrade or downgrade on a number of securities and decide to buy or sell these shares in accordance to the patterns they form (Dothan, 1990).Many times, individuals have a tendency to attach on anchor investors as reference points (Barber &Odean, 2002).

According to De Bondt and Thaler (1985), professional investment compares to a beauty contest analogy. Judges at a beauty contest pick on a face they think others will pick. This is similar to looking at a problem from the same point of view to get an average opinion (Northcraft& Neale, 1987). Investors then engage and devote their intelligence in guessing what the average value will be to reach a dominating opinion (De Bondt&Thaler, 1985). Dominated strategies have no chance of winning and rational participants eliminate such strategies to reach a Nash equilibrium where only one strategy remains to result in an aggregate outcome of zero (De Bondt&Thaler, 1985).

The Prospect Theory as it Explains Share Price Fluctuations

When confronted with choices under uncertainty, investors who consider risky prospects separate prospective gains from losses (Kahneman&Tversky, 1979). Separating prospects goes against decision-making theory that involves analyzing a project in terms of its effect on overall wealth (Chew, 1983). To separate and evaluate losses and gains is to start from a reference point, here referred to as psychological concept of narrow framing. The purpose of isolation is to economize on mental effort of decision-making due to information overload (Thaler, 1993). Under the prospect theory, investors exhibit risk-taking with losses and risk-aversion with gains as they feel there is too much to lose with their gaining shares and too little to gain with their losing shares (Hang, Barberis& Santos, 2003).

Empirical Review

Alter and Oppernheimer (2006) predict short-term stock fluctuations by using processing fluency. The study investigates the impact of the psychological principle of fluency involving people's tendency to prefer easily processed information on short-term share price movements. The study is a laboratory study that involves two analyses of naturalistic real-world stock market data. In the short-term, fluently known stocks, robustly outperform those that are not.

Research work by Lutje and Menkhoff (2004) showed that, there is a propensity towards home bias for both institutional and individual investors. By use of a multivariate analysis, home bias is exhibited by sophisticated investors, based on relative optimism. Equity managers invest close to home, as they are more optimistic about market prospects in their own geographic areas. The study done in German compares major world markets in Europe and the US.Shiller, Kon-ya and Tsutsui (1996) advanced the idea of relative optimism. There is expectation that near-by investments will perform better than foreign investments. Investors are averse to investing abroad despite the diversification benefits that are available abroad.

Critique of the Review

The theory on Technical Analysis contents that investors expect share prices to move in trends that persist for long periods. The technicians believe that new information does not come to the market at one point in time. In this respect, Technical Analysis is only possible in the weak form of the market efficiency. The determinant of share price fluctuations in the study is investor perception. The behavioral explanations of efficient market anomalies do not give guidance as to how to exploit any irrationality to make money from mispriced securities. The behavioral approach is too unstructured, to allow virtually any anomaly, to be explained by some combination of irrationalities chosen from a list of behavioral biases.

Research Gaps

In making investment decisions, more often investors respond to events without carefully analyzing these and make systematic errors in processing information, a fact that makes them susceptible to exploitation by others. Investors buy shares that recently caught their attention. Research on determining susceptibility to specific biases in trading of shares on the NSE is necessary. Investment advisors can utilize such a research to incorporate behavioral attributes into their wealth management practices.

RESEARCH METHODOLOGY

Research Design

Survey methodologywas used in thestudy to determine whether investor perception influences share price fluctuations at the NSE. Survey is a method of research that provides description of items by interrogating selected participants (Bryman, 2004). Quantitative model testing incorporated statistical analysis on opinions of research participants. Inferential statistics used chi-square distribution to analyze primary data between the response and the respondent.

Target Population and the Sampling Frame

The researcher investigated a population of all the employees of active brokerage firms and investment banks at the NSE. The decision to use securities firms was because this group is knowledgeable with the functioning of the stock exchange. The sampling frame included technical employees of brokerage and investment banks at the NSE as at the end of December 2012.The researcher interrogated seventy-two (72) respondents based on convenience to secure opinions on employees of securities firms supplying at least four different services including fund management, research, investment banking and financial analysis. A sample of four participants was purposively selected using professional stratification as dictated by the four main activities the firms provide.

Data Collection and Analysis Methods

A self-administered questionnaire enabled the collection of data. Data analysis entailed descriptive and inferential statistics using SPSS. Charts and tables with cross tabulations between the response and the respondent presented the data. Analysis of Variance (ANOVA) tested for the significance of the differences between more than two sample means (Levin & Robin, 2006).Variance analysis used the Pearson's Chi-square analysis, simple regression between the independent variable and share price fluctuations at the NSE and cross-correlation analysis to determine the strengths of relationships. The F-distribution table utilized confidence levels set at 95% or 5% significance.

ANALYSIS AND FINDINGS

Response Rate

Initial processing indicated that 61 out of 72 respondents, representing 84.7% response rate was utilized. The response rate is considered very good (above the threshold of 70%) and representative of the target population for the purpose of making generalization to the larger population (Punch, 2003).

Descriptive Statistics on the effect of investor perception on share price fluctuations

Most of the research participants refute the statement that a combination of emotions and intuition improve investment decisions at 38.3% compared to those who support the statement at 28.4%. The argument of Statman (2001) and Pompian (2006) contradict this result as it postulates that rationality, an attribute of intuition is not the only driver of human behaviour in investment decision making. The researcher also sought to know the opinion of the respondents on the statement that investors sell better performing shares and hold onto poor performing

ones. Majority of the respondents at 72.1%, affirm this statement. Research work by Schifrin and Statman (1984) supports this view by stating that investors sell their winner shares before they start losing and hold longer onto their loser shares to avoid realizing a loss. The investors thus exhibit what the researchers refer to as a disposition effect.

The response rate of research participants who affirm the statement that financial advisors feel uncomfortable asking clients, personal questions that could improve investment decisions is higher at 36.0% compared to those who negate the statement at 29.6%. Research work by Ziegler and Skinner (2006) support this view   by arguing that financial advisors shy away from asking their clients personal questions but let investors to continue distorting market activity outcomes. Investors who experience life trauma are highly emotional and this negatively impacts their investment decisions.

Most of the respondents are neutral at 62.3% to the assertion that investors imitate the actions of those they believe are more knowledgeable in making investment decisions. The result is at variance with the argument of Barber and Odean (2002) that though groups are useful, investors should not be drawn to them in making investment decisions. Other factors such as one's needs or experiences should play an important role in determining investment decisions. Investors who are confident trade frequently as shown by a response rate of 72.2%.Research work by Odean and Gervas (2005) show that overconfidence tendency is detrimental for trading and such traders receive lower yields relative to the market.

Table 1: Descriptive Statistics on the Effect of Investor Perception on
Share Price Fluctuations at the NSE

	Emotions and Intuition improve investment decisions	Fin. Advisors uncomfortable asking personal questions	Observation of actions deemed knowledge	Overconfident investors trade frequently
Strongly disagree	20.0	11.5	3.3	1.6
Disagree	18.3	18.1	13.1	9.8
Neutral	33.3	34.4	62.3	16.4
Agree	16.7	26.2	21.3	50.8
Strongly agree	11.7	9.8		21.4
Total	100.0	100.0	100.0	100.0

Normality tests

Normality tests were conducted on investor perception and the results are shown in Table 2. The model passed the Jarque-Bera normality test with a p-value of 0.943 which is greater than

0.05, suggesting that the errors are normally distributed. The RESET test indicated that the model was correctly specified with a p-value of 0.192. It is therefore on the basis of these tests that it was reasonable to claim that the model has a good statistical fit.

Table 2: Results of the Diagnostic Tests for the Model

Test Statistics	LM Version
Normality	CHSQ[2] = 0.118(0.943)

Note: p-values in parenthesis based on a test of skewness and kurtosis of residuals

Figure 2: Histogram for data normality
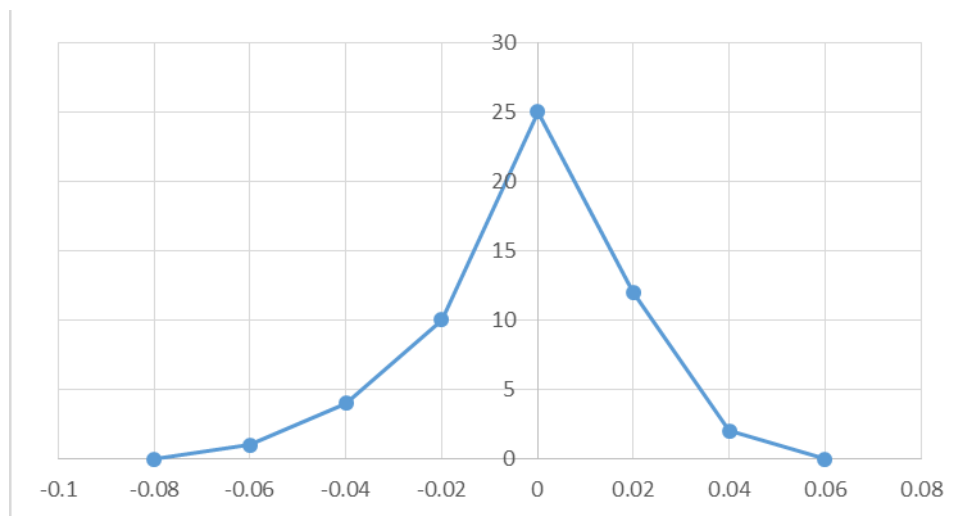
The histogram plot was obtained by placing the data in regularly spaced cells and plotting each cell frequency versus the centre of the cell. The Figure 2 shows the histogram of residuals. The histogram illustrates an approximately normal distribution of residuals produced by the model through a calibration process.

Inferential Tests: Regression Analysis on the effect of Investor Perception on Share Price Fluctuations at the NSE

Four (4) questionnaire items (X_{is}) were used in this variable to create the following regression modelthat displays the beta coefficients (β_{is}) in both magnitude and direction of the effect of the predictor item on the dependent variable.

$Y = 2.472 - 0.096X_1 - 0.055X_2 + 0.313X_3 - 0.297X_4$………………………...Equation 1

Where: Y= Share Price Fluctuations at the NSE

Xis = Questionnaire items that represent Investor Perception

From the table below, *β0* is 2.472 and this, can be interpreted to mean that when investor perception is absent, that is when X_{is} are zeros, the model predicts that a firm's share prices will stabilize at 2.472. If the predictor variable is increased by one unit, there is an increase or a decrease in the share value by the beta values shown in the table below. The results show that investor perception is significant at $p = 0.028$ that is, $p < 0.05$) and hence, the researcher rejects the null hypothesis and concludes that the regression model, which is investor perception is significant in predicting share price fluctuations at the NSE. The result supports the argument by Kahneman et al. (1982) that cognitive and emotional biases hamper investment decision-making. The biases can be corrected by better information and accepting expert advice.

Table 3: Results of Coefficients of the Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.472	1.095		2.258	.028
Emotions and Intuition improve investment decisions	-.096	.130	-.101	-.744	.460
Fin advisors uncomfortable asking personal questions	-.055	.149	-.052	-.371	.712
Observation of actions deemed knowledgeable	.313	.233	.213	1.339	.186
Overconfident investors trade frequently	-.297	.210	-.237	-1.416	.163

a. Dependent Variable: Share price fluctuations

Reliability Tests

According to Sekaran (2003), the external or internal reliability depends on consistency and that the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure. Validity, on the other hand is concerned with the extent to which an instrument measures what one purports to measure. Out of the four methods used for assessing reliability, the internal consistency method as the most commonly used was applied in this study.

The Cronbach's alpha (α) is a reliability coefficient that indicates how well the items in a set are positively correlated to one another (Sekaran, 2003). Cronbach's alpha (α)measures internal consistency reliability among group of items combined to form a single scale. It is a statistic that reflects the homogeneity of the scale of measurement. Generally, reliability

coefficients of 0.70 or more (α ≥0.70) are considered good (Nunnally, 1978) and was the benchmark used for this study.

The investor perception related determinants had a Cronbach's alpha of 0.797 and this was considered good and none of the items could be deleted since this could have led to the lowering of the coefficient and reliability as indicated in table 4.

Table 4: Investor Perception Related Determinants Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.793	.797	5

Table 5: Statistics for Investor Perception Related Determinants

	Cronbach's Alpha if Item Deleted
Emotions and Intuition	.782
Sell Winner shares and hold losers	.785
Fin advisors uncomfortable asking questions	.726
Investors imitate anchor investors in investment decision-making	.751
Over-confident investors over-trade	.706

DISCUSSION OF FINDINGS

Investor Perception and its Effect on Share Price Fluctuations on the NSE

The overall model as broken down into questionnaire items gives a p-value of 0.028 which is less than the critical value of 0.05. Based on the regression model, the researcher rejects the null hypothesis and concludes that investor perception has significant influence on share price fluctuations at the NSE. Technical analysis supports the research results that investors perceive the past price movement of a share to signal future price movements (Fabozzi et al., 2002).The stock market is made up of participants who are both rational and irrational where their moods, guesses and opinions dictate trades and prices (Dothan, 1990).The various groups participating at the stock exchange include well-informed professionals, corporate insiders and average investors who perceive and interpret information from different sources at different paces.

The difference in opinions of investors cause erratic share price movements. Investors believe that short-term trading is more profitable than long-term investing, the outcome of which is erratic share price fluctuations (Loeb, 2004).

The result of the research indicates that investors tend to sell their shares that are performing better and hold onto the poor performing ones. According to Schifrin and Statman (1984), investors exhibit a disposition effect and sell winner shares early before they start losing. Investors are reluctant to sell poor performing shares immediately because they try to avoid realizing losses. Investors usually face a dilemma in making the right decision about holding onto or selling shares. The dilemma occurs usually when there has been a change in price. A share price may fall but this should not be the reason to sell that share. The trader must investigate the reason for the decline in price because declining share prices may on the contrary be the reason to increase shareholding in that stock. Regardless of the news that accompany a share, investors should not immediately react to it.

Investors who experience life trauma such as divorce, death in the family and loss of employment drift from their investment commitment and shift their targets.According to Ziegler and Skinner (2006), investment advisors should consider emotions and intuition when giving advice to clients. Investment advisors should ask clients, questions about their private lives and not just about their money. The advisors should communicate in the subjective realm to maintain human contact. Human behavior and intellect are connected and when making decisions such as investing on the stock exchange, emotionally unstable investors can take investment actions that cause the market to be irrational due to faulty reasoning.

The research shows that over-confident investors trade frequently. Over-trading leads to volatility in share prices and inability for investors to hold portfolios that are diversified. According to Fellner (2004), overconfident tendency is negative for the market in the long-term when applied in making investment decisions. The study indicates that people observe the actions of those they believe are more knowledgeable in making investment decisions. The result supports the observation by Forsyth and Wadsworth (2006), that people monitor and follow the herd and are not bothered about the trend of the yield curve. The market moves in a particular direction that has no correlation with the fundamentals of the shares under consideration when majority of investors take the same action at the securities exchange (Kahnemann & Tversky, 1979).

CONCLUSIONS

The study established that investor perception, influences share price fluctuations at the NSE. Investor perception influences share price fluctuations at the NSE. The market is made up of both rational and irrational investors whose moods, guesses and opinions dictate market activity. The difference in investors cognitive and emotional biases leads to share price fluctuations at the NSE (Pompian, 2006). Technical analysis supports this results that investors

view a company's past performance and form patterns and trends to predict future share performance (Fabozzi et al., 2002).

RECOMMENDATIONS

Recommendations for Investment Time Horizon

In theory, investors buy and sell a share when the price is low and high respectively. Investors find themselves in a dilemma as to when the price is at its highest or lowest in order to maximize their actions. There is a possibility that investors may be selling too soon to miss on potential profit or selling too late to experience losses. Short-term investment strategy is costly and it involves too many trades that entail continuous opening and closing of accounts. Investors should, see stock price fluctuations as an opportunity to make more wealth and not as a sign to sell out of fear and exit the market. Investors should pursue long-term investing strategy because such a strategy offers market stability. The average investor does not have the capacity to invest in research to form a solid plan to trade short-term and make wealth. Short-term investing based on every fluctuation on the market may be misleading and the average investor who trades on every ebb and flow in the market may not be able to preserve capital.

Investment advisors should appreciate that people are emotional and prone to delusional bouts that make them over-confident, fearful, confused, impulsive or extremely reserved to the extent of being reluctant to provide the requisite information. The behavioral finance discipline has defined several investor biases and possible solutions to solve these to mitigate against the possibility of making costly mistakes in investment decisions. Generally, there are two basic behavioral types including fear and greed that expose clients to the risk of failure to meet their financial objectives.

Practically, it is difficult to remove emotional biases from clients but the use of active management techniques can enable investment advisors create portfolios that help their clients stay invested. Investors will be able to live through share price volatility and resist reactive behavior to reach their investment goals. Long-term relationships between investment advisors will enable the advisor understand the client's emotional biases. The advisor is able to educate clients to understand their biases to moderate these and make decisions through a thoughtful planning process.

Recommendations for Further Research

In making investment decisions, psychology plays an important role as it influences human emotions and cognitive error that leads to irrational markets and erratic share price fluctuations.

Being aware of the pertinent psychological biases is critical in finding success in investment at the stock market. A lot of research has been carried out on how economic and political factors affect the performance of the NSE. There should be further research on the intertwining of psychology and finance to explain individual investment decision-making. Specifically, there should be an empirical investigation into the effect of too frequent trading on share prices at the NSE. Such an inquiry is possible if one can determine what an excessive trading volume is for traders who own discount brokerage accounts.

REFERENCES

Aduda, J. &Muimi, P. (2011, August). Test for Investor Rationality for Companies Listed at the Nairobi Securities Exchange. Journal of Modern Accounting and Auditing, 7, 8, 827-840.

Barber, B.M. &Odean, T. (2001, February). Boys will Be Boys: Gender Overconfidence and Common Stock Investing. Quarterly Journal of Economics 116, 1 261-292

Barber, B.M. &Odean, T. (2002). All That Glitters: The Effect of Attention and News On the Behaviour of Individual and Institutional Investors. Working Paper: University of California.

Bodie, Z., Kane, A. &Marcus, A.J. (2008). Essentials of Investments. New York: McGraw Hill/Irwin

Brigham, E.F. & Houston, J.F. (2004). Fundamentals of Financial Management. Mason-Ohio: South-Western

Brigham, E.F. &Ehrharddt, M.C. (2005). Financial Management: Theory and Practice. Mason: South-Western

Bryman, A. (2004). Social Research Methods. New York: Oxford University Press

Capital Markets Authority (2008). Capital Market Authority Annual Report. Nairobi: Capital Markets Authority

Capital Markets Authority (2012). Capital Markets Authority Annual Report. Nairobi: Capital Markets Authority

Chip, H. &Tversky, A. (1991). Preferences and Beliefs: Ambiguity and the Competence in Choice Under Uncertainty. Journal of Risk and Uncertainty, 4, 5-28.

De Bondt, G.J. (2008). Determinant of Stock Prices: New International Evidence. Journal of Portfolio Management, 34, 3, 81-92.

Dunn, D.S. (1989). Demonstrating a Self-Serving Bias. Teaching of Psychology, 16, 21-22.

Du Toit, G.S. (1986). Technical Analysis and Market Efficiency on the Johannesburg Stock Exchange. Working Paper for D. Com degree, Pretoria: University of Pretoria.

Elton, E.J., Gruber, M.J, Brown, S.J. &Goetzmann, W.N. (2008). Modern Portfolio Investment Analysis. New Jersey: Argosy Publishing

Fama, E. (1981). Stock Returns, Real Activity, Inflation and Money. American Economic Review, 71, 545-564.

Gervais, S. &Odean, T. (2001). Learning to Be Overconfident. Review of Financial Studies, 14, 1, 1-27

Gifford, E. (1995). Investors Guide To Technical Analysis: Predicting Price Action in the Markets. London: Pitman Publishing

Goetzmann, W.N. &Peles, N. (1997). Cognitive Dissonance and Mutual Fund Investors. Journal of Financial Research Issue 10, 145-58

Goodman, R. (1995). The Luck Business: The Devastating Consequences and Broken Promises of America's Gambling Explosion. New York: The Free Press

G.O.K (2007). Economic Survey. Nairobi: Kenya National Bureau of Statistics

Graham, J.R., Harvey, C.R. & Huang, H. (2003). Investor Competence, Trading Frequency and Home Bias. Working Paper, Duke University.

Kahnemann, D. &Riepe, M. (1998). Aspects of Investor Psychology: Beliefs, Preferences and Biases, Investment Advisors Should Know About. Journal of Portfolio Management. 24, pp 52-65

Kahnemann, D., Slovic, P. &Tversky, A. (1982). Judgement under Uncertainty: Heuristics and Biases. New York: Cambridge University Press

Kahnemann, D. &Tversky, A. (1979). Prospect Theory: An Analysis of Decisions Under Risk. Econometrica 47

KIPPRA (2011). Kenya Economic Report. Nairobi: KIPPRA

KNBS (2011). Economic Survey. Nairobi: KNBS

Kibosh, G.W. (2005). Capital Markets in Emerging Economies: A Case Study of the NSE. Master's Thesis obtained from The Fletcher School.

Kiremu, Z. (2012). The Concept of Automated Trading at the NSE. Thesis, School of Business, University of Nairobi

Lutje, T. &Menkhoff, L. (2004, January). Home Bias: Evidence from Fund Managers Views. Working Paper, University of Hannover

Ngugi, R. (2003). Development of the NSE: A historical Perspective, KIPPRA Discussion Paper: Macro-economic Division. Nairobi: KIPPRA

Northcraft, G. & Neale, M. (1987). Experts, Amateurs and Real Estate: An Anchoring Adjustment Perspective on Property Pricing Decisions. Organizational Behaviour and Human Decision Processes. 39, 84-87

Nyang'oro, O. (2013, February). Foreign Portfolio Flows and Stock Market Performance: Case of NSE. School of Economics, University of Nairobi

Odean, T. (1999). Do Investors Trade Too Much? American Economic Review. 79-129

Pompian, M.M. & Longo, J. (2004, fall). A New Paradigm for Practical Application of Behavioral Finance: Creating Investment Programs Based on Personality Type and Gender to Provide Better Investment Outcomes. Journal of Wealth Management.

Pompian, M.M. (2006). Behavioral Finance and Wealth Management: How to Build Optimal Portfolios that account for Investor Biases. New Jersey: John Wiley & Sons, Inc.

Rabin, M. &Thaler, R. (2001). Anomalies: Risk Aversion. Journal of Economic Perspectives. 15, No. 1

Reilly, F.K. & Brown, K. (2007). Investment Analysis and Portfolio Management.Mason: Thomson, South-Western

Ross, S.A., Westerfield, R.W. & Jordan, B.D. (2006). Fundamentals of Corporate Finance. New York: McGraw-Hill

Schwager, J.D. (1995). Futures: Fundamental Analysis. New Jersey: John Wiley & Sons

Sharpe, F.W., Alexander, G.J. & Bailey, V. (2001). Investments (5thed).New Delhi: India Private Ltd

Schifrin, H. &Statman, M. (1985). The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence. Journal of Finance, 40, 77-90.

Shiller, R.J. &Beltrato, A.E. (1992). Stock Prices and Bond Yields: Can their Co-movements be explained in Terms of Present Value Models? Journal of   Monetary Economics, 30, 1, 25-46.

Shiller, R.J. (2000). Irrational Exuberance. New Haven: Yale University Press

Shleifer, A. &Vishny, R.W. (1986). Large Shareholders and Corporate Control. Journal of Political Economy, 94, 461-488.

Slovic, P., Baruch, F. & Lichtenstein, S. (1982). Facts versus Fiction: Understanding Public Fears in Judgement under Uncertainty: Heuristics and Biases. New York: Cambridge University Press

Thaler, R.H., (1993). Advances in Behavioural Finance. New York: The Rusell Sage Foundation

Thaler, R. &Bondt, D. (1985). Mental Accounting, The Endowment effect and other biases. (Online) Available 15 August 2013: http://www/investopedia.com/university/Behavioral finance/behavioral2asp#xzzlqDd4oPI

Ware et al. (2006). High Performing Investment Teams: How to Achieve Best Practices of Top Firms. New Jersey: John Wiley & Son

World Bank (2001, May). Greed and Grievance in Civil War in Africa. Policy Research Paper, 2355.

Yenkey, C.B. (2007). Behavioural Differences between Inexperienced Investors and their Institutional counterparts, Effects of Fraud and Price Volatility on Continued   Participation in the Market: Research in Emerging Stock Markets in East Africa.