

**FACTORS INFLUENCING INVESTORS TO INVEST IN EQUITIES
AS OPPOSED TO BONDS IN THE BANKING INDUSTRY IN
KENYA**

A CASE STUDY OF KENYA COMMERCIAL BANK EMPLOYEES.

BY

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DECLARATION

This research Thesis is my original work and has not been submitted for a degree to any other university.

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This research Thesis has been submitted for examination with our approval as University Supervisor.

Dr.Nyaribo Misuko sign:..... Date.....

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DEDICATION

This work is dedicated to my family and colleagues and all stakeholders in the banking industry .

ACKNOWLEDGEMENT

I wish to express my sincere gratitude to Almighty God for enabling me to come to the end of this academic pursuit.

I am heartily thankful to my supervisor, Dr Nyaribo Misuko, whose encouragement, guidance and support from the initial to the final level enabled me to successfully come to the end of this study.

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DEFINITION OF TERMS

Bonds

In finance, a bond is a debt security, in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) and/or to repay the principal at a later date, termed maturity. A bond is a formal contract to repay borrowed money with interest at fixed intervals

Bond represents a loan obligation of the bond issuer government, corporation, or individual to the bondholder or investor. In essence, the investor loans funds to the bond issuer in exchange for interest payments for a set period of time. At the end of this time the borrower bond issuer pays the investor bond holder/loaner back the money loaned. A certificate of deposit is an example of a bond. A consumer goes to the bank and gives the bank money. In turn, the bank pays the consumer interest for the use of that money for a specified period. Then, the bank uses that money to invest in other projects, such as, small businesses or home mortgages.

Shares

A joint stock company divides its capital into units of equal denomination. Each unit is called a share. These units i.e. shares are offered for sale to raise capital.

Equities

An instrument that signifies an ownership position, or equity, in a corporation, and represents a claim on its proportionate share in the corporation's assets and profits. A person holding such an ownership in the company does not enjoy the highest claim on the company's earnings. Instead, an equity holder's claim is subordinated to creditor's claims, and the equity holder will only enjoy distributions from earnings after these higher priority claims are satisfied. also called equities or equity securities or corporate stock.

Corporate Bonds

Corporations sell bonds to raise money for major projects. Corporate bonds pay higher interest because corporations cannot tax to raise money. Corporate bonds have no income tax advantages, thus, usually have higher yields; whereas, U.S. Treasuries are not taxed by state and local government. Some municipal bonds are free from federal income tax and may not be taxed by state and local governments.

Equity shares

These are commonly referred to common stock or ordinary shares. Share capital of a company is divided into a number of small units of equal value called shares. The term sock is the aggregate of a members fully paid up shares of equal value merged into one fund.

Right shares –shares offered to the existing shareholders at a price by the company. they are offered as a matter of legal right.

Bonus shares-this is the distribution of shares in addition to the cash dividendsto the existing share holders. they are issued to the existing shareholders without payment of cash.-

Warrants-this is a bearer document of title to buy specified number of equity shares at a specified price.

Treasury Bonds

These are debt instruments issued by the Government of Kenya to finance budgetary goals and were introduced in the Secondary Market over 10 years ago. They are available in both the primary market (through auctions) and the secondary market (through the NSE). An investor needs at least Kshs. 50,000 to purchase bonds in Kenya.

ABSTRACT

This Research project investigated the factors influencing the investors to invest in equities as opposed to Bonds in Banking industry in Kenya. Development of bonds market widens the financing options for firms and enables the government to shift its domestic debt to longer-term securities. However, development of bonds market requires that certain conditions be in place. These include a developed money market, wider participation and protection of investors, reduced information asymmetry and an efficient trading system. This would boost the market microstructure and facilitate development of the market.

The level of development of Kenya's bonds market indicates that the country is very far from developing this market. The length of treasury bonds market is shorter than that of developed bonds markets, the trading system is not harmonized with intermediaries using different pricing models, and the regulatory framework is also weak to accommodate diversification of corporate bonds. Also, growth of corporate bonds is yet to pick momentum, and the debt market is thin, with the type of securities that have negative implications on the competitiveness of the market. There also gaps between the regulatory framework and the objectives of bonds market development. Thus, developing the bonds market requires huge investment in institutional building.

Chapter two reviews the literature on the conceptual framework and theoretical framework. Empirical reviews, a critique of the literature and research gaps are also covered.

Companies issue bonds to finance operations. Most companies can borrow from banks, but view direct borrowing from a bank as more restrictive and expensive than selling debt on the open market through a bond issue, while the last chapter is comprised of research design, population, sampling, data collection, pilot study, data analysis and presentation.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Investing in various types of assets is an interesting activity that attracts people from all walks of life irrespective of their occupation, economic status, education and family background. When a person has more money than he requires for the current consumption, he would be coined a potential investor. The investor who is having extra cash could invest it in securities or in any other assets like gold or real estate or could simply deposit it in his bank account. The companies that have extra income may like to invest their money in the extension of the existing firm or undertake new venture. All these activities in a broader sense mean investment. Pandian (2006).

The 1980s and 1990s have seen developing countries embark on revitalizing capital markets to enhance mobilization of long-term capital. The evidence that long term capital is positively related to economic growth has justified this effort. Further, the recent need to meet the Millennium Development Goals (MDGs) demands mobilization of adequate financial resources, and this has kept the momentum for capital market development high.

Kenya has followed suit in developing its bonds market in the capital market reform process. Although treasury bonds were introduced into the market in the early 1980s, the market faced various challenges that constrained its development. Until 2001 when the government took a deliberate effort to shift domestic debt to long term instruments, government bonds maturities were short. Corporate bonds were introduced in mid-1990s, but the growth momentum was not maintained. Ten years after the first bond was listed, there are less than ten corporate bonds listed in the market. Further, the demand to diversify the bonds with mortgage-backed bonds among the banking institutions and infrastructure bonds has not been successful. Ngugi, (2003b)

Bonds market is an alternative vehicle for mobilizing finance for both the government and the private sector in financing long term projects such as housing and infrastructure development, in addition to financing government deficit. The development of bonds market plays a crucial role in promoting partnerships in the development process between the government and the private sector. Successful development of bonds market requires a number of conditions such as a developed money market, favourable macroeconomic

policies, market participation, appropriate trading system and a sound legal and regulatory framework.

Some individuals in the economy are earning more than they currently wish to spend ,others fo example retirees spend more than they currently earn.theres need therefore to shift purchasing power from high earning periods to low earning periods.

One way is to store ones wealth into financial assets.In high earning periods one can invest their savings in financial assets such as stocks and bonds.In low eaning periods one can sell these assets to provide funds for consumption needs.By so doing they can shift the consumption over the course of the life time thereby allocating their consumption to periods that provide the greatest saisfaction.Thus the financial markets allow individuals to seperate decisions concerning current consumption from constraints that otherwise be imposed by current earning.Kane (2006)

According to Marcus (2009) an investment is the current commitment of money or other resources in the expectation of a reaping future benefits.

A bond is like a loan the issuer is the borrower debtor, the holder is the lender creditor and the coupon is the interest. Bonds provide the borrower with external funds to finance long-term investments, or, in the case of government bonds, to finance current expenditure. Certificates of deposit (CDs) or commercial paper are considered to be money market instruments and not bonds. Bonds must be repaid at fixed intervals over a period of time. Pearl (2009).

Corporations can raise capital either by selling an ownership interest or by borrowing money from creditors. In business terms, an ownership interest e.g. a security such as a stock is called equity, and money borrowed from creditors is termed as a debt. In their early years corporations usually must raise equity capital privately, often from professional investors such as venture capitalist who specialise in high risk high return investments in fast growing firms. After a corporation goes public by selling its stock through an initial public offering (IPO) it has option to raise cash by selling more stock later either a primary market or a secondary market. Megginson (2007)

Bond market size

Amounts outstanding on the global bond market increased 10% in 2009 to a record \$91 trillion. Domestic bonds accounted for 70% of the total and international bonds for the remainder. The US was the largest market with 39% of the total followed by Japan (18%). Mortgage-backed bonds accounted for around a quarter of outstanding bonds in the US in 2009 or some \$9.2 trillion. The sub-prime portion of this market is variously estimated at between \$500bn and \$1.4 trillion. Treasury bonds and corporate bonds each accounted for a fifth of US domestic bonds. In Europe, public sector debt is substantial in Italy (93% of GDP), Belgium (63%) and France (63%). Concerns about the ability of some countries to continue to finance their debt came to the forefront in late 2009. This was partly a result of large debt taken on by some governments to reverse the economic downturn and finance bank bailouts. The outstanding value of international bonds increased by 13% in 2009 to \$27 trillion. The \$2.3 trillion issued during the year was down 4% on the 2008 total, with activity declining in the second half of the year. Source (BIS Quarterly Review, (2002))

The Nairobi Stock Exchange comprises of 55 listed companies with a daily trading volume of over USD 5 million (400m) and a total market capitalization of approximately USD 15 billion(120m) . The Companies which are divided into agriculture, commercial and services industrial and allied, finance and investment, and alternative market segment.

The central bank of Kenya and other stake holders have so far undertaken significant reforms in the domestic bond market. These initiatives which include the introduction of ATS are aimed at enhancing the safety and efficiency in the processing of secondary trading of government securities as well as other securities among other market activities.

Since the roll out of the new online system on 27th November 2009, the bond market has witnessed renewed interest and enthusiasm from bond traders.As of Dec 2009 11 trades had been recorded totaling to kes1.72 B and 16 trades were in the process amounting to 2.235 B. Ndungu (CBK Dec 2009)The Federal government, states, cities, corporations, and many other types of institutions sell bonds. Generally, a bond is a promise to repay the principal along with interest coupons on a specified date maturity. Some bonds do not pay interest, but all bonds require a repayment of principal. When an investor buys a

bond, he/she becomes a creditor of the issuer. However, the buyer does not gain any kind of ownership rights to the issuer, unlike in the case of equities. On the other hand, a bond holder has a greater claim on an issuer's income than a shareholder in the case of financial distress this is true for all creditors. Bonds are often divided into different categories based on tax status, credit quality, issuer type, maturity and secured/unsecured and there are several other ways to classify bonds as well. Bonds are generally considered the safest unsecured bonds, since the possibility of the Treasury defaulting on payments is almost zero. The yield from a bond is made up of three components: coupon interest, capital gains and interest on interest if a bond pays no coupon interest, the only yield will be capital gains A bond might be sold at above or below par the amount paid out at maturity, but the market price will approach par value as the bond approaches maturity. A risky bond has to provide a higher payout to compensate for that additional risk. Some bonds are tax-exempt, and these are typically issued by municipal, county or state governments, whose interest payments are not subject to federal income tax, and sometimes also state or local income tax ,Williams(2010).

The way one invests in bonds for the short-term or the long-term depends on the investment goals and time frames, the amount of risk you are willing to take and your tax status. When considering a bond investment strategy, remember the importance of diversification. As a general rule, it's never a good idea to put all your assets and all your risk in a single asset class or investment. One would want to diversify their risks their bond investments by creating a portfolio of several bonds, each with different characteristics. Choosing bonds from different issuers protects one from the possibility that any one issuer will be unable to meet its obligations to pay interest and principal. Choosing bonds of different types (government, agency, corporate, municipal, mortgage-backed securities, etc.) creates protection from the possibility of losses in any particular market sector. Choosing bonds of different maturities helps you manage interest rate risk.

The reason why one needs to consider present and future interest rate levels is because as interest rates increase, bond prices go down, and vice versa. If one is able to hold their bond until maturity, then interest rate movements do not really matter, because one will redeem the principal upon redemption. But often, investors have to cash out their bonds well before the maturity date. If interest rates have moved up since the bond was purchased , and it is sold it prior to maturity, then the bond will be worth less than your

initial investment.

One should also be aware of the claim status of the bond they are intending to buy. Claim status refers to ability to liquidate your investment in the event the bond issuer goes bankrupt. If one is buying a government bond, such as a Treasury Bill, claim status is irrelevant, because the odds of the Federal Government going bankrupt are slim and none. If one is buying a corporate bond, however, there is always a chance that the issuer could go out of business. In the event of liquidation, bondholders are given priority over stockholders. However, there are often different classes of bondholders. Senior note holders can often claim against certain kinds of physical collateral in the event of bankruptcy, such as equipment (computers, machines, etc.). Regular bond holders can not always claim against physically collateral, and are next in line after the senior note holders.

Next, one should always check the three main features of the bond they are intending to buy; the coupon rate, the maturity date, and the call provisions. The coupon rate is the interest rate. Most bonds pay an interest rate semi annually or annually. The maturity date is the date that the bond will be redeemed by the issuer; simply put, the maturity date is when the company must pay back to you the principal you loaned to them. The call provisions are the rights of the issuer to buy back your bond prior to maturity. Some bonds are non-callable, while others are callable, meaning that the company can buy your bond back before maturity, usually at a higher price than what you paid.

Finally, one should also understand that if economic conditions become more favorable after you buy a bond, and interest rates start to go down again, the issuer will likely issue a lot more bonds to take advantage of the low interest rates, and will use the proceeds to try to buy back any callable bonds it issued previously. So, when interest rates go down, there is an increasing likelihood that your bond will be redeemed prior to maturity, if in fact the bond is callable. However, one should also take into account the above risk factors.

The portfolio should contain a mix of corporate, federal, municipal, and even junk bonds (there is always a default risk associated with junk bonds, but they pay a huge interest rate). One should talk to the broker about diversifying the kinds of bonds in your portfolio and you will reduce your overall risk and maximize your return.

1.2 Statement of the Problem

Investment is the employment of funds on assets with the aim of earning income or capital appreciation in future. It has two attributes namely the time and risk. Present consumption is sacrificed to get a return in the future. When an investor invests in equities he must focus on the most reputed sector that will provide the maximum return over the next few years. Proper financial planning is a must. A second reason to invest in equities is that they provide diversification that includes higher average return with lower average volatility. When combined with other asset classes such as bonds, real estate or commodities the diversification benefits will even be greater.

The growth in bond market activity is an indication of the increasingly important role played by bonds in activating the capital market. However, compared to the amount of bond issued, the secondary market lags far behind the equity market in terms of capitalization. Secondary trading in the capital market over the eight-year period (1999 to 2004) was dominated by equities. In 1997, the proportion of bonds to equities amounted to 11.6 per cent, which gradually increased to 45.6 per cent in 2002 before declining to 23 per cent in 2003 and further to 17.9 per cent in 2004. The table below gives a clearer picture.

Table 1: Capital market trading over eight year period (1999-2004)

YEAR	1997	1998	1999	2000	2001	2002	2003	2004
Equities (Ksh billion)	114.3	128.94	106.70	104.40	86.1	112.05	317.53	314.15
Bonds in (shs billion)	15.08	28.52	24.72	28.58	69.80	94.1	94.54	66.09
Total KSHS(Billion)	129.18	156.46	131.42	132.98	155.9	206.15	411.07	370.24
% of bonds to the total	11.60	18.30	18.80	21.50	44.80	45.60	23.00	17.90

Source: Capital markets authority Reports 1999 to 2004

The high proportions of 44.8 per cent and 45.6 per cent in 2001 and 2002, respectively, may be explained by the anxieties that faced investors over political transition that posed an investment risk, resulting to sale of share holdings. These differences in quantity and percentage tells much that meets the eye in the sense that once a trend is established and

persists for a period exceeding 3 years, particular factors must be at play that shape the direction and consequently the mindset of the investors in favour of a particular investment option over the other. That marks the departure point for this study in attempt to find out the factors that work for shares preference compared to bonds. This study hypothesizes that the amount of knowledge or the perception that investors have over either bonds or shares, the risks presumed, affordability and the ease of transaction affect the investor tendency to favour shares over bonds.

1.3 General Objective

The overall objective of this study is to investigate factors influencing investing in equities as opposed to bonds in Banking industry, a case study of Kenya commercial Bank.

1.3.1 Specific Objectives

The objectives of the study are;

1. To find out whether the availability of information is a factor that influence investors decision to invest in either shares or bonds.
2. To find out whether the risk factor influences the investment decision in shares or bonds
3. To find out whether affordability is a factor that influence investor to invest in share as opposed to bonds
4. To find out whether the transaction flexibility of shares is a factor that is in favour of the decision to invest in shares as opposed to bonds.

1.4 Research Questions

- 1 Does the availability of information affect the investors decision to invest in either shares or bonds?
- 2 To what extent is risk a factor that influence the investor decision in favour of either shares or bonds?
- 3 How does affordability influence investor decision to invest in shares as opposed to bonds?
- 4 To what extent does ease of transaction favour the investor decision towards shares over bonds?

1.5 Significance of the Study

1.5.1 investors

The study will help in giving the investors more information about investing in the financial market. This will empower them to make the right choices by assessing the risks and the rate of returns.

1.5.2 Investing companies

For those companies whose bonds will be bought, the companies will be able to generate more capital for growth and expansion, which will in turn make the investors have confidence with the company and hence the demand for shares prices will rise.

1.5.3 Brokerage firms

The study aims at increasing investors knowledge which will improve the turnover at the stock market. Since brokerage firms commissions depends on the number of transactions then they stand to benefit with increased business.

1.5.4 The government

The overall impact of the study will give rise to the improvement of the country's economy and will play a vital role in poverty eradication.

Being part of the Economic pillars to achieve the vision 2030 this study will therefore assist the government in achieving the vision 2030. Allen (2002)

1.6 The Scope of the Study

The study aims to cover the employees of KCB in Nairobi branches. There are 43 branches within Nairobi with 500 members of staff. 50 staff members will be interviewed from 20 branches.

The members of staff enjoy a facility to invest in shares and bonds hence affordability will not be an issue.

1.7 Limitations of the Study

Due to limited time and finances it was not possible to conduct in-depth study in the entire KCB bank hence the study covered only the Nairobi branches. There's need to cover the entire KCB network and also the entire industry.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter covers review of the literature on: the conceptual framework and theoretical framework. Empirical reviews, a critique of the literature and research gaps are also covered.

Companies issue bonds to finance operations. Most companies can borrow from banks, but view direct borrowing from a bank as more restrictive and expensive than selling debt on the open market through a bond issue.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted.

The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus.

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members.

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region, automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

KCB Bank is a key player in the country's Capital and Money Markets. The services offered by KCB Custody Services are structured to meet the individual requirements of customers who invest in Equities, Fixed Deposits, Treasury Bills, Treasury Bonds, Corporate Bonds and Commercial Paper. These services are best suited for Stockbrokers, Investment Managers, Retirement Benefits Schemes, Unit Trust Fund Managers, Insurance Companies and other registered Collective Investment Schemes.

Kcb provides professional and proactive service through a dedicated Team of Managers and our overriding concern is to meet our customers' requirements. The benefits of KCB's Custody Services include:

A team of dedicated experts providing personalized services, Timely execution of your investment instructions, Comprehensive recordkeeping and information for timely decision making.

KCB Custody provides the following services:

Account Administration ,Safe Keeping Services, transaction Settlement, Capital and Income Services ,Corporate Actions Administration, activity Reporting, Trustee Services

Source : <http://www.kcbbankgroup.com/>

2.2 Theoretical Orientation

Here literature orientation introduces the different theories that talk about investing in bonds and shares. Theories try to help one understand the problems and make known what other researchers think of the theories.

Efficient market theory states that the share price fluctuations are random and do not follow any regular pattern .(Pandian (2006)) ,Hull,(2008)

According to Kendall (1953) , in his paper he reported that stock price series is a wandering one.They appear to be random ,each successive change is independent of the previous one.

Efficient markets fully reflect the available information.If markets are efficient securities'prices reflect normal returns for their level of risk.Fama (1970).

One of the most important and influential economic theories dealing with finance and investment, MPT was developed by Harry Markowitz and published under the title "Portfolio Selection" in the 1952 Journal of Finance. MPT says that it is not enough to look at the expected risk and return of one particular stock. By investing in more than one stock, an investor can reap the benefits of diversification - chief among them, a reduction in the riskiness of the portfolio. MPT quantifies the benefits of diversification, also known as not putting all of your eggs in one basket.

For most investors, the risk they take when they buy a stock is that the return will be lower than expected. In other words, it is the deviation from the average return. Each stock has its own standard deviation from the mean, which MPT calls "risk".

The risk in a portfolio of diverse individual stocks will be less than the risk inherent in holding any one of the individual stocks (provided the risks of the various stocks are not directly related). Consider a portfolio that holds two risky stocks: one that pays off when it rains and another that pays off when it doesn't rain. A portfolio that contains both assets will always pay off, regardless of whether it rains or shines. Adding one risky asset to another can reduce the overall risk of an all-weather portfolio.

In other words, Markowitz showed that investment is not just about picking stocks, but about choosing the right combination of stocks among which to distribute one's nest egg

Modern portfolio theory states that the risk for individual stock returns has two components:-

Systematic Risk - These are market risks that cannot be diversified away. Interest rates, recessions and wars are examples of systematic risks.

Unsystematic Risk - Also known as "specific risk", this risk is specific to individual stocks and can be diversified away as you increase the number of stocks in your portfolio

(see Figure 1). It represents the component of a stock's return that is not correlated with general market moves.

For a well-diversified portfolio, the risk - or average deviation from the mean - of each stock contributes little to portfolio risk. Instead, it is the difference - or covariance - between individual stock's levels of risk that determines overall portfolio risk. As a result, investors benefit from holding diversified portfolios instead of individual stocks.

Modern portfolio theory takes this idea even further. It suggests that combining a stock portfolio that sits on the efficient frontier with a risk-free asset, the purchase of which is funded by borrowing, can actually increase returns beyond the efficient frontier. In other words, if you were to borrow to acquire a risk-free stock, then the remaining stock portfolio could have a riskier profile and, therefore, a higher return than you might otherwise choose.

The theory demonstrates that portfolio diversification can reduce investment risk. In fact, modern money managers routinely follow its precepts.

That being said, Modern Portfolio Theory (MPT) has some shortcomings in the real world. For starters, it often requires investors to rethink notions of risk. Sometimes it demands that the investor take on a perceived risky investment (futures, for example) in order to reduce overall risk. That can be a tough sell to an investor not familiar with the benefits of sophisticated portfolio management techniques. Furthermore, MPT assumes that it is possible to select stocks whose individual performance is independent of other investments in the portfolio. But market historians have shown that there are no such instruments; in times of market stress, seemingly independent investments do, in fact, act as though they are related.

Likewise, it is logical to borrow to hold a risk-free asset and increase your portfolio returns, but finding a truly risk-free asset is another matter. Government-backed bonds are presumed to be risk free, but, in reality, they are not. Securities such as gilts and U.S. Treasury bonds are free of default risk, but expectations of higher inflation and interest rate changes can both affect their value.

Then there is the question of the number of stocks required for diversification. How many is enough?, Mutual funds can contain dozens and dozens of stocks.

Investment guru William J. Bernstein says that even 100 stocks is not enough to diversify away unsystematic risk. By contrast, Edwin J. Elton and Martin J. Gruber, in their book "Modern Portfolio Theory and Investment Analysis" (1981), conclude that you would come very close to achieving optimal diversity after adding the twentieth stock.

The gist of Modern Portfolio Theory (MPT) is that the market is hard to beat and that the people who beat the market are those who take above-average risk. It is also implied that these risk takers will get their comeuppance when markets turn down.

Then again, investors such as Warren Buffett remind us that portfolio theory is just that - theory. At the end of the day, a portfolio's success rests on the investor's skills and the time he or she devotes to it. Sometimes it is better to pick a small number of out of favour investments and wait for the market to turn in your favour than to rely on market averages alone. Elton and Gruber, (1981).

2.2.3 Rational market theory

Prices reflect as much information as dictated by the combination of environmental conditions and the number and nature of "species" in the economy." By species, he means distinct groups of market participants, each behaving in a common manner (i.e. pension funds, retail investors, market makers and hedge-fund managers, etc.). If multiple members of a single group are competing for rather scarce resources within a single market, that market is likely to be highly efficient, e.g., the market for 10-Year US Treasury Notes, which reflects most relevant information very quickly indeed. If, on the other hand, a small number of species are competing for rather abundant resources in a given market, that market will be less efficient, e.g., the market for oil paintings from the Italian Renaissance. Market efficiency cannot be evaluated in a vacuum, but is highly context-dependent and dynamic. Shortly stated, the degree of market efficiency is related to environmental factors characterizing market ecology such as the number of competitors in the market, the magnitude of profit opportunities available, and the adaptability of the market participants (Andrew,2005).

2.2.4 Capital asset Pricing theory

Markowitz, William Sharpe, John Lintner and Jan Mossin provided a basic structure for the CAPM model. It is a model of linear general equilibrium return. In CAPM theory the required rate of return of an asset is having a linear relationship with the asset's beta value, i.e. undiversifiable or systematic risk.

It is assumed that the investor could borrow or lend any amount of money at the riskless rate of interest. When this opportunity is given to investors they can mix risk-free assets with the risky assets in a portfolio to obtain a desired rate of risk return combination.

According to (Kenya Institute for Public Policy Research and Analysis) (KIPRA) in the paper titled "Development of bonds market: Kenya's experience", development of the bonds market widens the financing options for firms and enables the government to shift its domestic debt to longer-term securities. However, development of the bonds market requires that certain conditions be in place. These include a developed money market, wider participation and protection of investors, reduced information asymmetry and an efficient trading system. This would boost the market microstructure and facilitate development of the market. The level of development of Kenya's bonds market indicates that the country is very far from developing this market. The length of the treasury bonds market is shorter than that of developed bonds markets, the trading system is not harmonized with intermediaries using different pricing models, and the regulatory framework is also weak to accommodate diversification of corporate bonds. Also, growth of corporate bonds is yet to pick momentum, and the debt market is thin, with the type of securities that have negative implications on the competitiveness of the market. There are also gaps between the regulatory framework and the objectives of bonds market development. Thus, developing the bonds market requires huge investment in institutional building. KIPRA Working Paper No. 15 (2007)

The table below is dominated by equities. In 1997, the proportion of bonds to equities amounted to 11.6 per cent, which gradually increased to 45.6 per cent in 2002 before declining to 23 per cent in 2003 and further to 17.9 per cent in 2004. The high proportions of 44.8 per cent and 45.6 per cent in 2001 and 2002, respectively, may be explained by the anxieties that faced investors over political transition that posed an investment risk, resulting to sale of share holdings.

Therefore, the government needs to come up with policies to enhance trading of bonds in the capital market so as to achieve faster development of the market.

Performance of the bonds market

The Table below shows Equities and Bonds market capitalization (Ksh billion) 1997-December 2004.

Table 2: Equities and bonds market capitalization 1997-December 2004

YEAR	1997	1998	1999	2000	2001	2002	2003	2004
Equities (Ksh billion)	114.3	128.94	106.70	104.40	86.1	112.05	317.53	314.15
Bonds in (shs billion)	15.08	28.52	24.72	28.58	69.80	94.1	94.54	66.09
Total KSHS(Billion)	129.18	156.46	131.42	132.98	155.9	206.15	411.07	370.24
% of bonds to the total	11.60	18.30	18.80	21.50	44.80	45.60	23.00	17.90

Source: Capital Markets Authority Annual Reports for 2002, 2003

2.3.5 Market Turnover

Following Central Bank's withdrawal in 1997 from market making in treasury bonds, secondary market turnover on the NSE plummeted by 57 per cent from Ksh 15.08 billion in 1997 to Ksh 5.88 billion in 2000 (Table 4.11), although bond listings rose 15 times. Existing market makers at the time, namely Citibank and Standard Chartered Bank for the East African Development Bank (EADB) bond and Akiba Bank for treasury bonds did not make much impact. Equally, CFC Financial.

Services, the only licensed securities dealer, was yet to develop adequate dealing capacity. The investment in bonds was curtailed by the significant liquidity risk that investors faced.

Introduction of corporate and treasury bonds in Kenya was expected to enhance competition among financial assets and reduce the risk factor to investors as they would diversify their portfolio. Ngugi (2003) observed a decline in the volume of shares traded at the Nairobi Stock Exchange in the period following the introduction of bonds, which

was attributed to higher yields and lower risk in bonds market. An increase in long term treasury bond yields could cause investors to re-allocate wealth between equity and debt instruments, stimulating trading activity and therefore affecting liquidity.

Table 3: Corporate bonds holding structure (investor class) as at the end of June

2004 in %

Class of investors	Number	Amount (Ksh million)	Percentage (%)
Individuals	2	16	0.2
Banks and non-bank financial institutions	23	3,299	44.9
Insurance companies	15	400	5.4
Fund managers	23	3,635	49.5
Total		7,350	100.0

Source: Capital Markets Authority Report 2003

2.3.6 Market Capitalization

The growth in bond market activity is an indication of the increasingly important role played by bonds in activating the capital market. However, compared to the amount of bond issues, the secondary market lags far behind the equity market in terms of capitalization. Secondary trading in the capital market over the eight-year period as shown in Table 4.10 is dominated by equities. In 1997, the proportion of bonds to equities amounted to 11.6 per cent, which gradually increased to 45.6 per cent in 2002 before declining to 23 per cent in 2003 and further to 17.9 per cent in 2004. The high proportions of 44.8 per cent and 45.6 per cent in 2001 and 2002, respectively, may be explained by the anxieties that faced investors over political transition that posed an investment risk, resulting to sale of share holdings.

Therefore, the government needs to come up with policies to enhance trading of bonds in the capital market so as to achieve faster development of the market.

The costs involved in borrowing money directly from a bank are prohibitive to a number of companies. In the world of corporate finance, many chief financial officers (CFOs)

view banks as lenders of last resort because of the restrictive debt covenants that banks place on direct corporate loans. Covenants are rules placed on debt that are designed to stabilize corporate performance and reduce the risk to which a bank is exposed when it gives a large loan to a company. In other words, restrictive covenants protect the bank's interests; they're written by securities lawyers and are based on what analysts have determined to be risks to that company's performance.

Here are a few examples of the restrictive covenants faced by companies: they can't issue any more debt until the bank loan is completely paid off; they can't participate in any share offerings until the bank loan is paid off; they can't acquire any companies until the bank loan is paid off, and so on. Relatively speaking, these are straightforward, unrestrictive covenants that may be placed on corporate borrowing. However, debt covenants are often much more convoluted and carefully tailored to fit the borrower's business risks. Some of the more restrictive covenants may state that the interest rate on the debt increases substantially should the chief executive officer (CEO) quit, or should earnings per share drop in a given time period. Covenants are a way for banks to mitigate the risk of holding debt, but for borrowing companies they are seen as an increased risk.

Simply put, banks place greater restrictions on what a company can do with a loan and are more concerned about debt repayment than bondholders. Bond markets tend to be more forgiving than banks and are often seen as being easier to deal with. As a result, companies are more likely to finance operations by issuing bonds than by borrowing from a bank.

According to the manager cloita partners international theres need to develop the bond market. There are several good reasons for developing bond market. The most fundamental reason is to make financial and capital market more complete by generating market interest rates that reflect the opportunity cost of funds at each maturity. This is essential for efficient investment and financing decisions. Moreover the existence of tradable instruments helps risk management. Further the use of financial guarantees and other types of underwriting is becoming increasingly common in corporate debt market as financing deals become more complex. If borrowers have available to them only a narrow range of instruments (e.g. in terms of maturity, currency etc) then they can be exposed to significant mismatches between their assets and their liabilities.

The risks entailed by such mismatches have to be managed and the ability to do so will often depend on whether certain exposures can be adequately hedged. Liquid markets help capital market participants to hedge their exposures. If bond market is not well developed for instance firms may have to finance the acquisition of long-term assets by incurring short-term debts. As a result their investment policies may be biased in favour of short-term projects and away from entrepreneurial ventures.

The relationship between intermediation through banks and disintermediation through capital markets is controversial. Even in developed economies these two rather distinct systems have grown up one where capital markets are very important and one where banks dominate. A question that arises concerns the role commercial banks can play in developing our bond markets. The view that increased corporate bond issuance just takes away profitable business from commercial banks is oversimplified.

One implication often drawn from developed market experience is that a key prerequisite for the development of a corporate bond market is the existence of some form of independent credit risk assessment. How successfully can this be done and reinforced in our capital market is yet to be seen besides having only one approved South Africa based Credit Rating Agency by Capital Market Authority (CMA). But let me quickly point out that the Athi River Mining Limited five-year unsecured corporate bond issued on strength of its grade A investment credit rating from the Global Crediting Company of South Africa is a step in the right direction. The question for the policy makers is can independent credit rating be reconciled with provisions that allow some regulators of institutional investors i.e. Central Bank, Commissioner of Insurance, Retirement Benefits Authority (RBA) etc to themselves determine credit ratings of the debt instruments “their” firms can invest in? Central bank of Kenya has multiple interests in the development of bond markets. At a fundamental level the government Treasury bond helps to fund budget deficits. It is important to note that Central Bank of Kenya has increased its issuance of long-term Treasury bonds currently with 12-year tenor thus increasing the maturity period of government debt. Also Central Bank acts as agents for the government in various aspects of the management of government debt. They oversee clearance and settlement system and they are responsible for the stability of the financial

system often directly supervising banks. This multiplicity of interest means that the policy issues that arise are very diverse. source: central bank of kenya.

Though Kenya's financial sector is well diversified, it needs to be developed further. The banking sector is dominated by ten largest commercial banks, which accounts for over 77% of all deposits held by banking institutions. Insurance and banking sector's are quite competitive, but need to be restructured so that we have competitive bidding for government Treasury bills auction. The assertion is that "limiting" participation in the Treasury bill auction to only a few players would restrict competition and consequently the result not market driven. A developed Treasury bond market has a direct impact on the capital market. The two sectors could be strengthened through more mergers and consolidations, which will ensure efficient competition and further deepening of the capital market Without a functioning bond market firms lack a clear measure of the opportunity cost of funds. They will rely on commercial banks for debt financing. The same constraint that prevents the development of bond markets also leads banks to prefer short term credit which implies higher risks for business. The government massive infrastructure development i.e. reconstruction of our depilated roads network can be privately funded. Often in such cases the commercial feasibility depends on the funding structure that minimizes considerably risks. This requires long term (usually 20 years or longer) flexible or fixed interest rate, attractively priced debt instruments. Debts of this nature can be provided by a liquid traded bond.

In the 2005/2006 budget speech by the Minister of Finance securitization based on bankable assets were a given a boost particularly for institution offering infrastructural services to raise long term capital by encouraging such institution to set up special purpose vehicles (SPV) for the purpose of issuing asset backed securities. The Minister proposal that income from SPV to be exempted from income tax is highly commendable. Now that the Minister paved the way in the budget speech we would see more of structured corporate bonds issued through a special purpose vehicles (SPV) i.e. securitization of credit card receivables, infrastructure bond and mortgage backed bonds in our capital market. It is equally important to note that the limited role of corporate bond market is a function of how companies have been financing their investments projects-especially medium to long term fixed investments. The yield of a bond has to compensate investor for the opportunity cost of funds, default and liquidity risk If the

return of the bond is distorted among clients and there is no active secondary market investors will be reluctant to participate in the development of the corporate bond market. In any case a flourishing corporate bond market contributes to deepening of the capital market, is a source of fund for infrastructure and facilitates competition in the financial services. With developed bonds market banks can price debt more efficiently.

Source :Government of kenya budget speech (2005/2006).

2.3 Empirical Review

Information about capital market is not available to every one even where it is available people are ignorant to read it. The few who read are advantaged due to the fact that they know more about the bonds and shares hence enabling them make informed investment decisions.

Mob psychology sometimes influences how a person behaves in a group. many people get influenced by others in their decision making. this was witnessed during the initial public offering (IPO) of safaricom where the investors were not interested in the fundamentals of the company but by the influence of others.

The minimum amount to invest in a bond is fifty thousand shillings. This amount is prohibitive considering that many people live below a dollar per day. To invest in shares one can pay as little as five thousand shillings which may make shares a more attractive investment due to affordability.

To trade in shares one needs to advise their broker on the day to sell the shares. The settlement can take at least two days. This is contrary to bond market where due to huge amount of money involved it can take more time. This feature can therefore make the shares more attractive.

Taxation can also influence the investors in that the higher the tax the less people have to save. When people are taxed more they tend to have less money to save and invest.

Education gives people knowledge and more information. Therefore the more educated people are the more they are informed and the more they are able to make informed decisions.

The modified duration of a bond is a measure of its price sensitivity to interest rates movements, based on the average time to maturity of its interest and principal cash flows. Duration enables investor to more easily compare bonds with different maturities and coupon rates by creating a simple rule: with every percentage change in interest rates, the bond's value will decline by its modified duration, stated as a percentage. For example, an investment with a modified duration of 5 years will rise 5% in value for every 1% decline in interest rates and fall 5% in value for every 1% increase in interest rates.

Bond portfolio managers increase average duration when they expect rates to decline, to get the most benefit, and decrease average duration when they expect rates to rise, so minimize the negative impact. If rates move in a direction contrary to their expectations, they lose.

When interest rates rise, bond prices fall; conversely, when rates decline, bond prices rise. The longer the time to a bond's maturity, the greater its interest rate risks.

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices. Inflation-indexed securities such as Treasury Inflation Protection Securities (TIPS) are structured to remove inflation risk.

The risk that the bond market as a whole would decline, bringing the value of individual securities down with it regardless of their fundamental characteristics.

The risk that an investor chooses a security that underperforms the market for reasons that cannot be anticipated.

The risk that an investment performs poorly after its purchase or better after its sale.

The risk that the costs and fees associated

The higher the rate of return the better the investment. Investors will always invest in ventures where there are high rates of return in order to recoup their investment.

Investors are interested in ventures where they can be able to monitor how their wealth is growing. This will enable them to make a decision as to whether to withdraw their capital or increase depending on how the businesses are doing. The Securities Industry and Financial Markets Association (2005-2010)

Fundamental analysis of a business involves analyzing its financial statements and health, its management and competitive advantages, and its competitors and markets. When applied to futures and forex, it focuses on the overall state of the economy, interest rates, production, earnings, and management. When analyzing a stock, futures contract, or currency using fundamental analysis there are two basic approaches one can use; bottom up analysis and top down analysis. The term is used to distinguish such analysis from other types of investment analysis, such as quantitative analysis and technical analysis.

Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts. There are several possible objectives:

To conduct a company stock valuation and predict its probable price evolution, to make a projection on its business performance, to evaluate its management and make internal business decisions and to calculate its credit risk.

When the objective of the analysis is to determine what stock to buy and at what price, there are two basic methodologies

Fundamental analysis maintains that markets may misprice a security in the short run but that the "correct" price will eventually be reached. Profits can be made by trading the mispriced security and then waiting for the market to recognize its "mistake" and reprice the security.

Technical analysis maintains that all information is reflected already in the stock price. Trends 'are your friend' and sentiment changes predate and predict trend changes. Investors' emotional responses to price movements lead to recognizable price chart

patterns. Technical analysis does not care what the 'value' of a stock is. Their price predictions are only extrapolations from historical price patterns.

Investors can use any or all of these different but somewhat complementary methods for stock picking. For example many fundamental investors use technical's for deciding entry and exit points. Many technical investors use fundamentals to limit their universe of possible stock to 'good' companies.

The choice of stock analysis is determined by the investor's belief in the different paradigms for "how the stock market works". See the discussions at efficient-market hypothesis, random walk hypothesis, capital asset pricing model, Fed model Theory of Equity Valuation, Market-based valuation, and Behavioral finance.

Investors may use fundamental analysis within different portfolio management styles.

Buy and hold investors believe that latching onto good businesses allows the investor's asset to grow with the business. Fundamental analysis lets them find 'good' companies, so they lower their risk and probability of wipe-out.

Managers may use fundamental analysis to correctly value 'good' and 'bad' companies. Eventually 'bad' companies' stock goes up and down, creating opportunities for profits. Managers may also consider the economic cycle in determining whether conditions are 'right' to buy fundamentally suitable companies.

Contrarian investors distinguish "in the short run, the market is a voting machine, not a weighing machine". Fundamental analysis allows you to make your own decision on value, and ignore the market. Value investors restrict their attention to under-valued companies, believing that 'it's hard to fall out of a ditch'. The value comes from fundamental analysis.

Managers may use fundamental analysis to determine future growth rates for buying high priced growth stocks. Managers may also include fundamental factors along with technical factors into computer models (quantitative analysis).

Investors can use either a top-down or bottom-up approach. The top-down investor starts his analysis with global economics, including both international and national economic

indicators, such as GDP growth rates, inflation, interest rates, exchange rates, productivity, and energy prices. He narrows his search down to regional/industry analysis of total sales, price levels, the effects of competing products, foreign competition, and entry or exit from the industry. Only then he narrows his search to the best business in that area. The bottom-up investor starts with specific businesses, regardless of their industry/region.

The analysis of a business' health starts with financial statement analysis that includes ratios. It looks at dividends paid, operating cash flow, new equity issues and capital financing. The earnings estimates and growth rate projections published widely by Thomson Reuters and others can be considered either 'fundamental' (they are facts) or 'technical' (they are investor sentiment) based on your perception of their validity.

The determined growth rates (of income and cash) and risk levels (to determine the discount rate) are used in various valuation models. The foremost is the discounted cash flow model, which calculates the present value of the future. Dividends received by the investor, along with the eventual sale price. (Gordon model) earnings of the company or Cash flows of the company. The amount of debt is also a major consideration in determining a company's health. It can be quickly assessed using the debt to equity ratio and the *current ratio* (current assets/current liabilities).

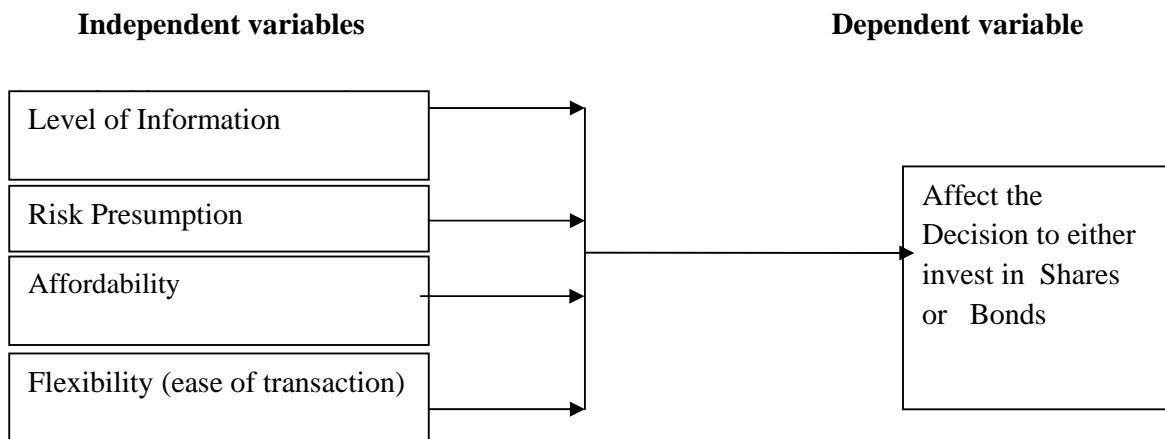
The simple model commonly used is the Price/Earnings ratio. Implicit in this model of a perpetual annuity (Time value of money) is that the 'flip' of the P/E is the discount rate appropriate to the risk of the business. The multiple accepted is adjusted for expected growth (that is not built into the model). Growth estimates are incorporated into the PEG ratio, but the math does not hold up to analysis. Its validity depends on the length of time you think the growth will continue. IGAR models can be used to impute expected changes in growth from current P/E and historical growth rates for the stocks relative to a comparison index.

Computer modeling of stock prices has now replaced much of the subjective interpretation of fundamental data (along with technical data) in the industry. Since about year 2000, with the power of computers to crunch vast quantities of data, a new career has been invented. At some funds (called Quant Funds) the manager's decisions have been replaced by proprietary mathematical models.

2.4 Conceptual Framework

Conceptual framework is a hypothesised model identifying the concepts under study and their relationships. The purpose of a conceptual framework is to help the reader to quickly see the proposed relationships (Mugenda & Mugenda, 2003). The study will investigate the relationship between independent variable and dependent variables. The independent variable in this study are the level of information the investor has on both equities and bonds, the risk presumed by either decision, affordability and the ease of transaction (here indicated as flexibility) The Dependent variable will be the investment decision to either invest in bonds or equities.

Figure 1: Conceptual Framework



Source: Author, (2011)

The diagram above indicates that the amount of information the investor has, the risk presumption, the affordability and the ease of transaction directly affect the investment dimension in favour of either bonds or equities

2.5 Operationalization

This involves identifying factors or indicators that the researcher will use to measure variables.

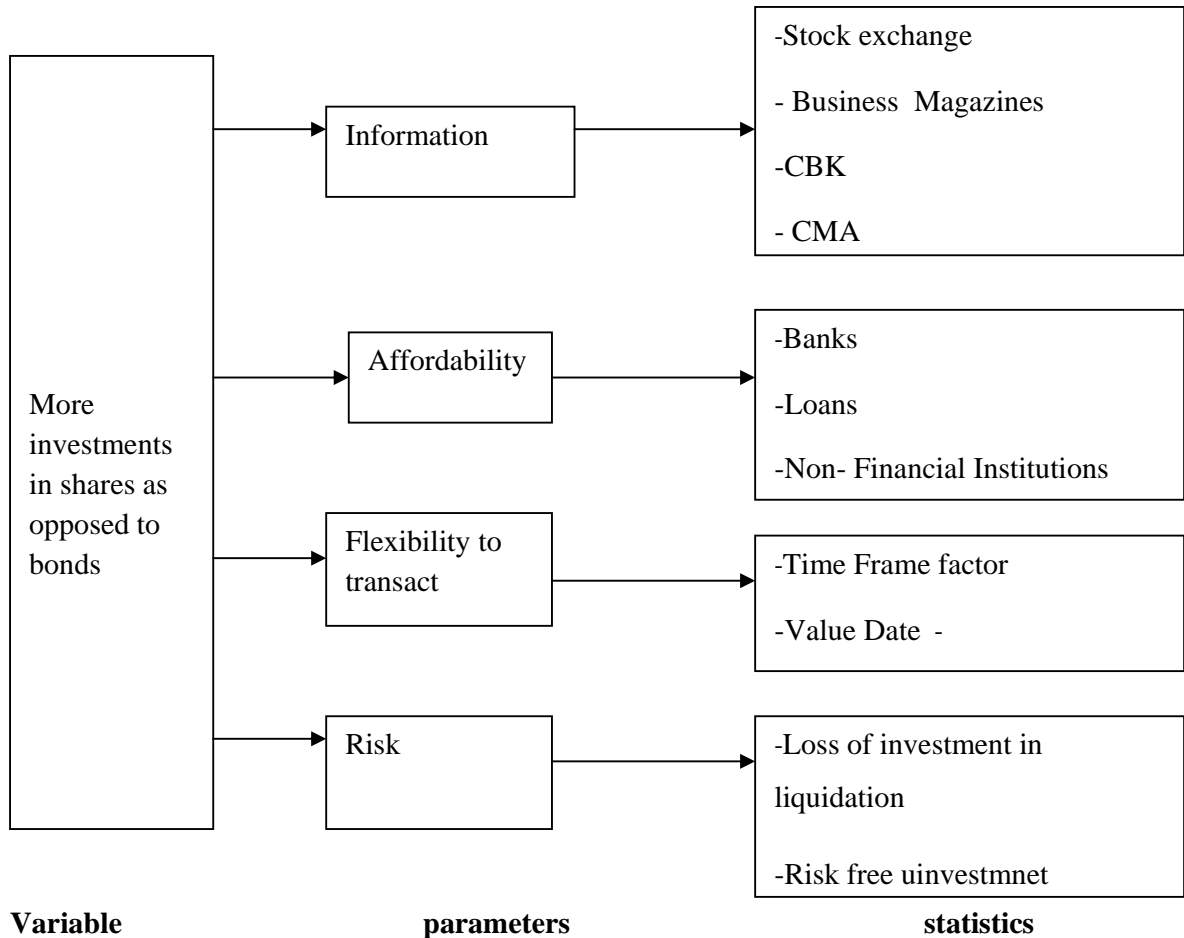
An operational definition defines something (e.g. a variable, term, or object) in terms of the specific process or set of validation tests used to determine its presence and quantity. That is, one defines something in terms of the operations that count as measuring it. The term was coined by Percy Williams Bridgman and is a part of the process of

operationalization. One might use definitions that rely on operations in order to avoid the troubles associated with attempting to define things in terms of some intrinsic essence.

According to In M. Ware & C. Brewer (Eds.), in their Handbook for teaching statistics and research methods (pp. 132–134), an example of an operational definition might be defining the weight of an object in terms of the numbers that appear when that object is placed on a weighing scale. The weight then, is whatever results from following the (weight) measurement procedure, which should be repeatable by anyone. This is in contrast to Operationalization that uses theoretical definitions.

To establish factors which influence investors to invest in equities as opposed to Bonds in the Banking industry, several variables were considered as demonstrated in figure 2 below.

Figure 2: Operational framework



Source: Author (2011)

2.6 Empirical Review

The concept of the equity risk premium is fundamental to modern financial theory and a basic building block in most forecasting models of long term expected investment returns. A review of the economic literature after the turn of the 19th Century suggests that the concept of the equity risk premium was not clearly formulated until the late 1930's. While the notion of return as a premium for risk above and beyond the pure time value of money dates at least to the work of John Stuart Mill, the basic technique of calculating the total return to investing in equities vs. debt developed relatively slowly, with the key insight provided by Alfred Cowles – a calculation of investment return in equities requires regular re-investment of income through the purchase of shares.

The historical development of the concept and measurement of the equity risk premium provides the context for these research contributions.

The first Ibbotson and Sinquefeld study represented a culmination of research on the basic building blocks of expected returns for different asset classes. The notion of building up expected returns from blocks of risk premium was viewed by J. B. Williams as a natural approach, however it is surprising how long it took for the basic empirical calculus of risk and return to come into use. The Ibbotson and Sinquefeld numbers as reported in 1976 were striking evidence that common stock investment, so avidly proposed by Smith and Fisher five decades earlier, was in fact a wise course of action to take. A new generation of investors in the 2000's used these numbers as a guide to expectations of future returns to equity investment, and twenty-five years later they were not disappointed. History proved an accurate forecast.

The sheer magnitude of the equity premium in the Kenyan capital markets over the 20th Century has caused both scholars and practitioners to ask whether these returns were simply an accident of history or evidence of a different kind of attitude towards risk than seems justified by theoretical models. The importance of Mehra and Prescott (1995) is that it pointed out the apparent contradiction between the Kenyan market experience and academic models of human behavior.

A part of our own inquiry into the equity premium puzzle has been the question of whether the history we examine is an unusual path – one unlikely to be realized in the future. Most Kenyans who lived through a significant portion of the 20th Century count themselves fortunate compared to large sectors of the global populace who suffered catastrophic loss of savings as a result of the political tumult of the widespread redistribution of wealth. In light of America's political and economic success in the 20th Century, it is not surprising to find that its markets dominated as well. A test of this “survivor” story in our research finds some empirical support, but does not fully explain the high equity risk premium enjoyed through U.S. capital market history.

The survival hypothesis suggests that the American experience may not be the best example on which to base future expectations – then again, maybe it is for those who plan to continue investing in the U.S. capital markets. Perhaps the positive American experience was actually due to our particular configuration of laws, political system, cultural mixture and practical orientation.

A longer look at the American financial experience affords a chance to test this proposition. Although the 20th century may be the American Century, the 19th century was not. Europe's financial markets were dominant through the First World War.

American finance was parochial and limited. One important qualification to this, however, was the comparative freedom of American equity markets. Britain severely limited the issuance of corporate shares until the mid-19th Century, and full corporate access to the capital markets did not exist until the British Companies Acts of the 1860's. By that time, American equity markets had been operating in New York, Philadelphia and Boston for many decades. Indeed the U.S. might have been the best market to study the early development of unfettered capitalism in the early 19th Century.

Despite decades of research on early capital markets, however, much remains to be done. Our understanding of the historical experience of investors is relatively limited once we step beyond a few well-studied markets. Basic information about investor returns is lacking and may never be recovered. Nevertheless, efforts to quantify the equity risk premium are well rewarded by insights into both the stability and dynamics of long term investment performance.

This paper addresses this question. On the other hand, new bank loans may provide an additional and timely certification that the firm is still of an acceptable credit quality. On the other hand, new bank loans affect the firm's capital structure increasing not only the value of its assets but also its leverage ratio and consequently the expected loss given default for bondholders. In addition, the frequent seniority of bank debt over public debt further disadvantages the current bondholders in case of default, exacerbating their expected losses.

2.7 Critique of the Literature

Literature reviewed in this study reveals that there are many factors contributing to investing in equities in relation to bonds. The special role banks play as providers of private debt has long been emphasized in the Literature. Stress the key advantage banks have over public investors in terms of monitoring efficiency and access to private information. Mikkelson and Partch (1986), James (1987), Lummer and McConnel (1989), document that bank loan announcements generate positive abnormal returns on the borrowing firms' stocks. The combination of theoretical work on the causes and benefits of private borrowing and the empirical stylized facts linking bank loan announcements to positive excess stock returns has led many researchers to label bank loans "special" among other corporate financing ,While the empirical work convincingly shows that

equity holders in publicly traded firms assess new bank loans to increase firm equity value, it is unclear how other providers of firm debt, public bondholders in particular, are affected. This paper addresses this question. The impact on the current firm bondholders is ex ante ambiguous. On the one hand, new bank loans may provide an additional and timely certification that the firm is still of an acceptable credit quality. On the other hand, new bank loans affect the firm's capital structure increasing not only the value of its assets but also its leverage ratio and consequently the expected loss given default for bondholders. In addition, the frequent seniority of bank debt over public debt further disadvantages the current bondholders in case of default, exacerbating their expected losses.

2.8 Research Gaps

According to the Kenyan Government Vision 2030, there are seven pillars which will assist the government towards achieving the vision. Among the seven pillars is the economic pillar which encompasses the financial markets among others. The Government through the vision has put more emphasis on infrastructure development; a number of strategies will be employed to improve the available infrastructure facilities to maximize economic and social goals.

Some of the strategies to be pursued include:- Strengthening the existing framework and accelerating the speed of implementation. This will also include raising efficiency and quality, enhancing local content of identified projects, support identified flagship projects benchmarking infrastructure facilities with globally accepted standards, targeting projects in otherwise neglected areas to increase connectivity and stimulate economic activities, enhancing Private Sector participation in provision of infrastructure facilities and services strategically complemented by Public Sector Interventions.

Infrastructure Financing through Capital Markets. The government has expressed its intention to increase private sector participation in the provision of infrastructure services to rehabilitate the national infrastructure. It wishes to do so in order to lower the costs of doing business in Kenya, provide affordable & efficient modes of transport for Kenya and increase overall living standards. The 2006/2007 Finance Act provides for enhanced

capacity of the domestic bond markets in the provision of long term funding for infrastructure projects. This is being attained by using long-term bonds to finance infrastructure projects. The infrastructure sector has been identified as one of the beneficiaries from this venture due to the important role quality infrastructure plays in national development. The domestic bond market will enable the Government to source for funds domestically to finance rehabilitation of the national infrastructure. Diamond (1984), Ramakrishnan and Thakor (1984), Boyd and Prescott (1986), and Fama (1985)

CHAPTER THREE

3.0 Research Methodology

3.1 Introduction

This chapter describes the procedures that were followed to conduct the study. It comprises of research design, population, sampling, data collection, pilot study, data analysis and presentation.

3.2 Research Design

The study used descriptive research design to investigate factors contributing to investing in equities in relation to bonds. According to Mugenda (2003), descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study.

Kothari (2004) further notes that descriptive research is concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation. The descriptive design will be used since it ensures complete description of the situation as it is, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected. The design will also provide a detailed and highly accurate picture of the situation that can be very useful in literature review.

3.3 Study Population

The study population is defined as a complete set of individual or objects with some common observable characteristics. The target population of the study was KCB employees in Nairobi branches. The Nairobi branches have a total of 500 employees. This is because of its cosmopolitan nature coupled by the advantage of hosting the headquarters. The headquarters gave the advantage of having the most experienced personnel in the field which is deemed vital to gathering the information needed in answering the research questions this study intended to answer.

3.4 Target population

The study sample was the top management staff, the middle level, the low management and the rest staff of KCB to be drawn from the branches in Nairobi. The banks finances the staff to invest in shares and bonds hence any staff who wishes to invest can afford.

This will be used as the sampling frame for the study.

Table 3.1: Target population

Category	No.of employees	Percentage % of sample
Top management	100	20%
Middle level management	100	15%
Low level management	90	10%
Staff	210	5%
Total	500	50%

Source: Author, (2011)

3.5 Sample and Sampling Technique

The study adopted the funnel approach to select 50 respondents to participate in this study. Because of the homogeneity of the population disproportionate stratified random sampling technique was used. When populations vary, it is advantageous to sample each subpopulation (stratum) independently. Stratification is the process of dividing members of the population into homogeneous subgroups before sampling. The strata should be mutually exclusive; every element in the population must be assigned to only one stratum. The strata should also be collectively exhaustive, i.e. no population element can be excluded. Then random or systematic sampling is applied within each stratum. This often improves the representativeness of the sample by reducing sampling error. It can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population.

Here the researcher gave the top most level of management the greatest weight and water down the weight as the cadres go down. With this the researcher assumes that the the higher the level of management the more informative the person is to this study and the more resources the person in entitled to from the bank's investment financing.

Table 3.2: Sample and Sampling Technique

Category	No.of employees	Percentage % of sample
Top management	20	40%
Middle level management	15	30%
Low level management	10	20%
Staff	5	10%
Total	50	100%

Source: Author, (2011)

3.6 Data Collection Tools

The study collected both primary and secondary data. Primary data was sourced through self administered semi structured questionnaires. The questionnaires were used because of their ability to collect data from a large group within a short period. (Grobler, 2003) postulates that perception is best analyzed using the liker scales which makes it to be a method of choice. Secondary data was collected from both empirical and theoretical literatures existing.

The literature on secondary data was collected from various sources such as library, journals, internet, newsletters and any other relevant databases.

The questionnaires included both structured closed-ended and unstructured open-ended questions. Closed ended questions are easier to administer and analyze and they are also economical to use in terms of time and money. Open-ended questions give the respondent complete freedom of response and therefore permit a greater depth of response (Mugenda & Mugenda, 2003).

The questionnaires were sent to the respondents with a brief explanation of the purpose and significance of the study, confidentiality of the information and anonymity of respondents.

3.7 Data collection procedure

After the questionnaire was prepared it was pretested to a selected sample which was similar to the actual sample that was used for research but not subjects in the actual sample. According to Mugenda and Mugenda (2003) the pretest sample is between 1% and 10% depending on the sample size. Therefore, pretesting will be carried out on 50 employees since the sample size is 500 respondents. Comments and suggestions from the respondents was used to improve the questionnaire in order to enhance validity and reliability.

CHAPTER FOUR

4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter discusses the data analysis and findings from the questionnaires, from the selected people who were issued with the questionnaires, which were the major tools of data collection. The answers given by the respondents differed and had to be analyzed in order to provide information relevant to the main objective of the study. The analysis of respondents' response rate was made to determine the number of respondents who actually answered the questionnaires. Quantitative technique was applied to analyze questionnaires under each objective and research question addressed by the study. The presentation of findings was in form of tables, charts and graphs to increase data validity, qualitative techniques were applied which made the research findings to be reliable in making the conclusion of the study, this also ensured that the findings presented contributed towards achieving the main objective of the study which was to find out the factors influencing investing inequities as opposed to bonds.

The data was analyzed using the SPSS software. This tool was suitable for this kind of analysis since it is used for social science research. Data was presented in form of tables' charts and graphs.

Since the questionnaire is semi-structured both quantitative and qualitative data was generated. The questionnaire was constructed using the liker scale. The data collected was edited, cleaned and coded. The common words, clauses and phrases were identified in order to look for the emerging patterns. Qualitative data was analysed by generating themes and categories that assisted in answering research questions. Quantitative data was analysed using Descriptive statistics. Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data.

Further, inferential statistics was used to derive the relationships and the contributions of each independent variable to the dependent variable. Here correlation coefficients and the regression analysis was done.

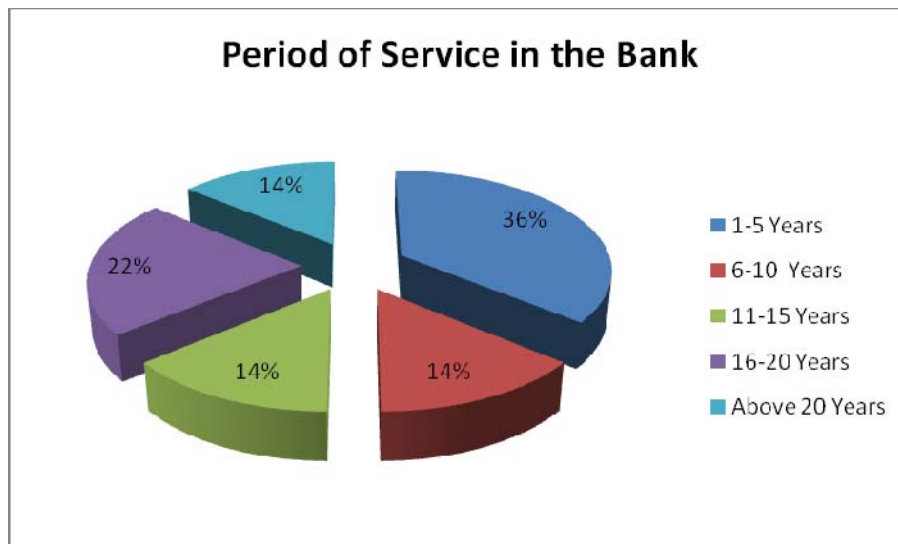
4.2 Quantitative Analysis

4.2.1 Length of service

Table 4.1: Period in the bank

Number of Years	Frequency	Percent
1-5 Years	18	36
6-10 Years	7	14
11-15 Years	7	14
16-20 Years	11	22
Above 20 Years	7	14
Total	50	100

Figure 4.1 Period of service in the bank.



Source: Author (2011)

As shown in the above pie chart 36 % of the respondents were aged between 1-5 years, 22% were aged between 16-20years, while 14% of the respondents were between 6-10 years, 11-15 years and above 20 years.

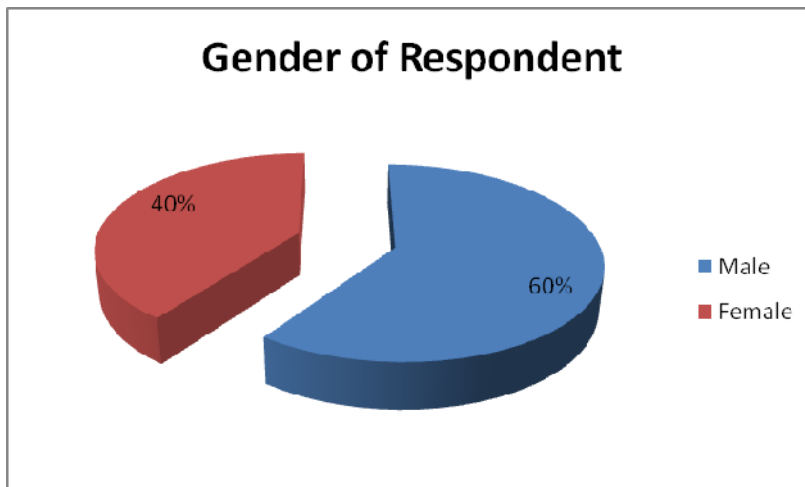
This is an indication that majority of the bank employees have been in the Banks service for more than 5 years.

4.2.2: Gender

Table 4.2 Gender of respondents

Gender	Frequency	Percent
Male	30	60
Female	20	40
Total	50	100

Figure 4.2 Gender.



Source: Author (2011)

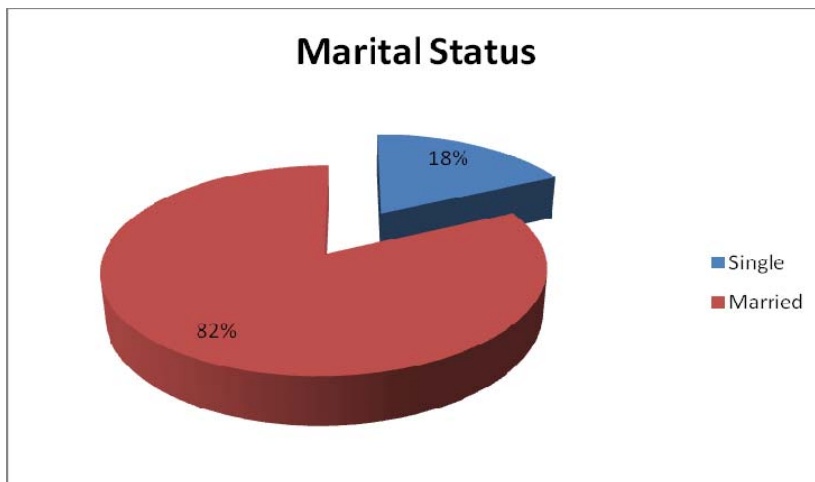
As shown in the table and chart above, 40% of the respondents were females while 60 % were males. This is an indication that majority of the people who responded were males.

4.2.3: Marital status

Table 4.3 Marital Status

Marital Status	Frequency	Percent
Single	9	18
Married	41	82
Total	50	100

Figure 4.3 Marital Status.



Source: Author (2011)

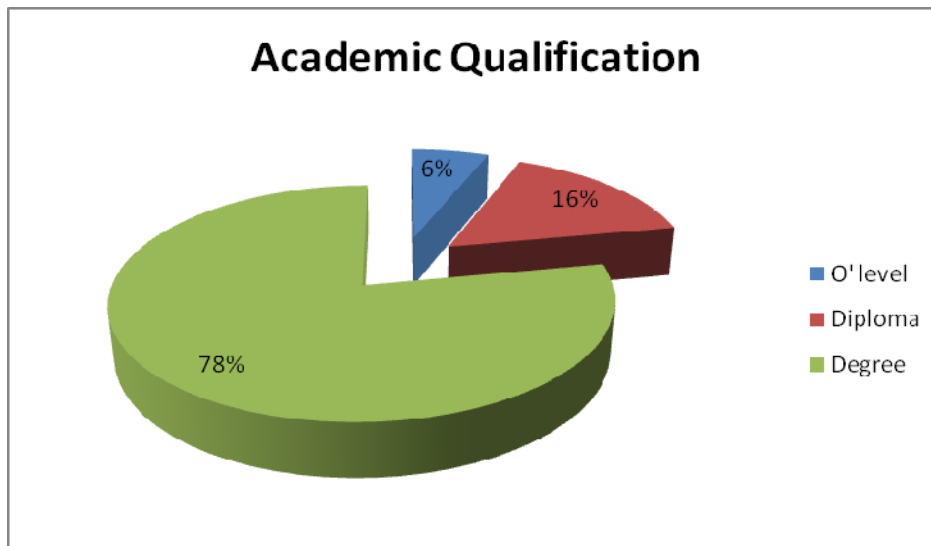
As shown in the table and chart above, 82% of the respondents were married while 18% were singles. This is an indication that majority of the Bank employees are married.

4.2.4: Academic Qualifications

Table 4.4 Education Level

Education Level	Frequency	Percent
O' level	3	6
Diploma	8	16
Degree	39	78
Total	50	100

Figure 4.4 Academic Qualification



Source: Author (2011)

As indicated by the table and bar graph above, Most of the respondents have acquired the education at O level, 6%. 16% of those who responded have diplomas ,and 78% have University level of study.

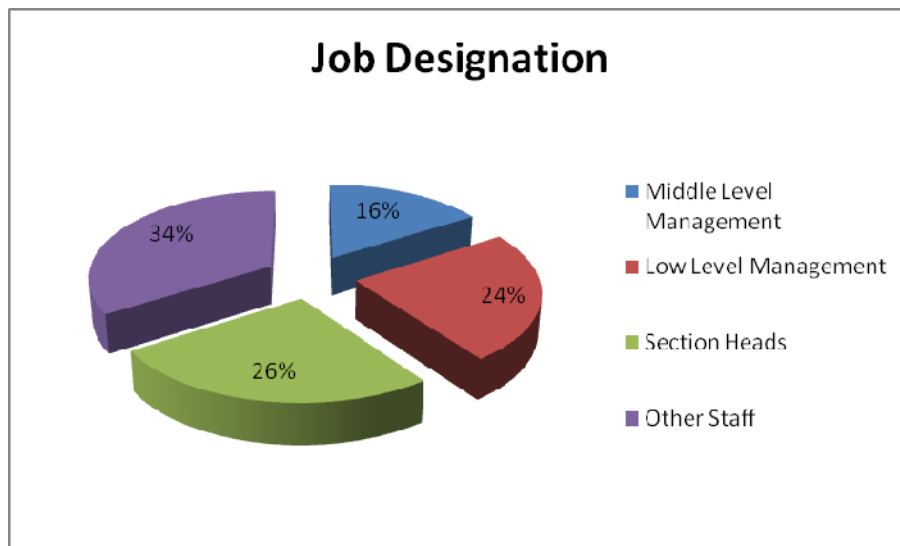
This significantly shows that the majority of the bank staff are university graduates.

4.2.5: Job Designation

Table 4.5 Job Designation

	Frequency	Percent
Middle Level Management	8	16
Low Level Management	12	24
Section Heads	13	26
Other Staff	17	34
Total	50	100

Figure 4.5 Job Designation



Source: Author (2011)

As per the table and graph above 26% of the respondents were section heads, 24% were in low level management, 16% in middle level management and 34% being in others category.

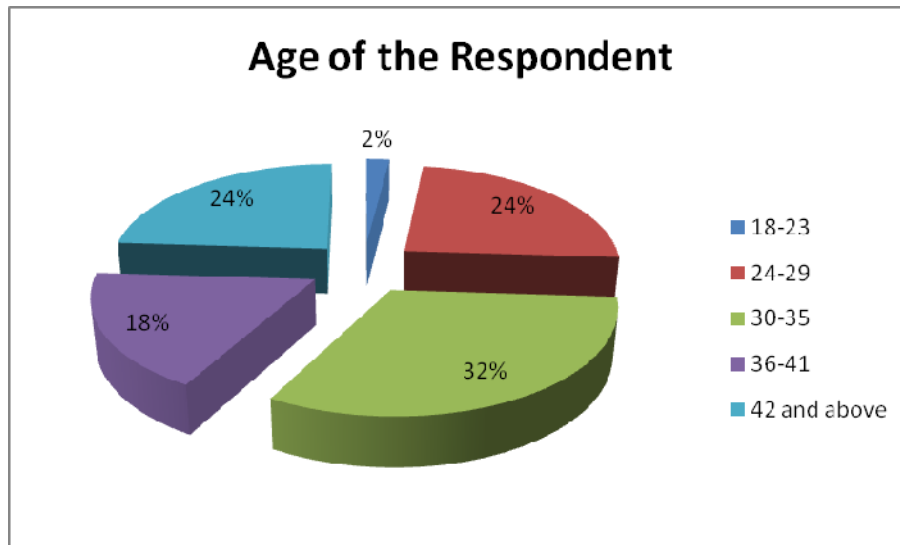
This shows that the majority of those who responded were in the lower management category. This may have been attributed by the schedule of senior management who are in and out of office due to policy making decisions.

4.2.6: Age

Table 4.6 Age Bracket

	Frequency	Percent
18-23	1	2
24-29	12	24
30-35	16	32
36-41	9	18
42 and above	12	24
Total	50	100

Figure 4.6 Age



Source: Author (2011)

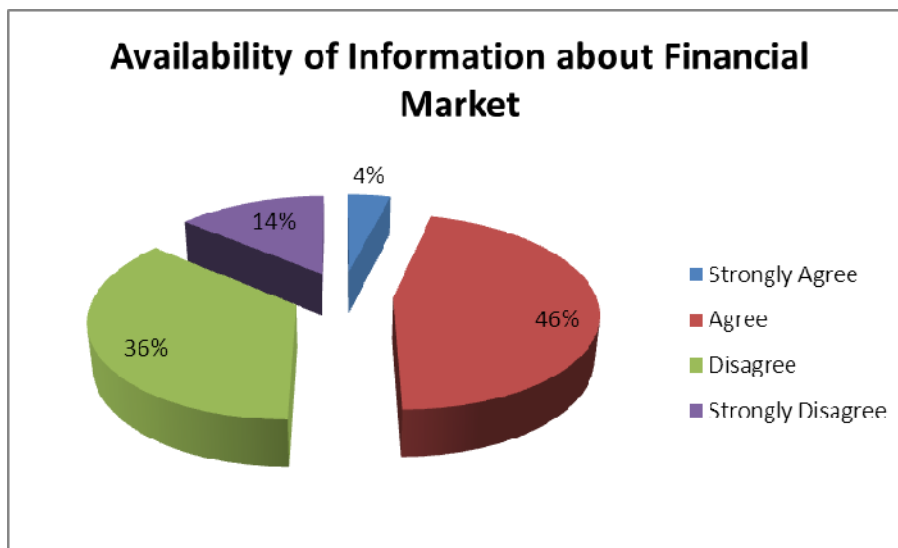
As shown in the table and chart above, 2% of the respondents were aged between 18-23 years while 24% aged between 24 – 29 years, 32% aged 30 – 35 years and 18 % aged 36-41 years and 24% above 42 years. This is an indication that majority of the people working in the bank lie between 30 and 35 years.

4.2.7: Availability of financial market

Table 4.7 Financial Market Information

	Frequency	Percent
Strongly Agree	2	4
Agree	23	46
Disagree	18	36
Strongly Disagree	7	14
Total	50	100

Figure 4.7: Availability of Financial Market Information.



Source: Author (2011)

The results as depicted by the table and the figure above indicate that 46% of the respondents agreed that the information about financial market is available, 36% disagreed while 14% strongly disagreed and 4% strongly agreed.

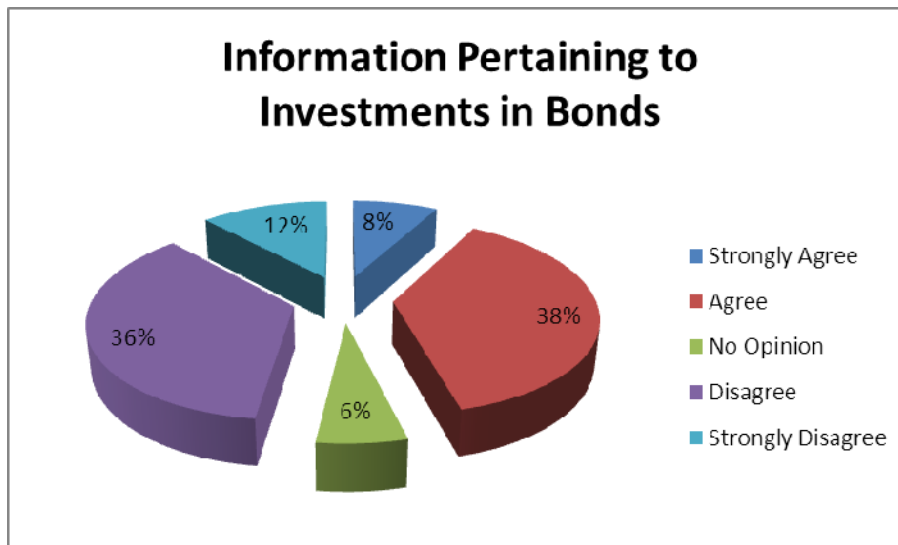
The result indicates that the information about financial market is not 100% readily available.

4.2.8: Investments in Bonds.

Table 4.8 Investments In Bonds

	Frequency	Percent
Strongly Agree	4	8
Agree	19	38
No Opinion	3	6
Disagree	18	36
Strongly Disagree	6	12
Total	50	100

Figure 4.8 Investment in Bonds.



Source: Author (2011)

As shown in the table and chart above, 8% of the respondents strongly agreed that there was availability of information pertaining to investment in Bonds, 38% agreed, while 36% disagreed, and 12% strongly disagreed while 6% had no opinion.

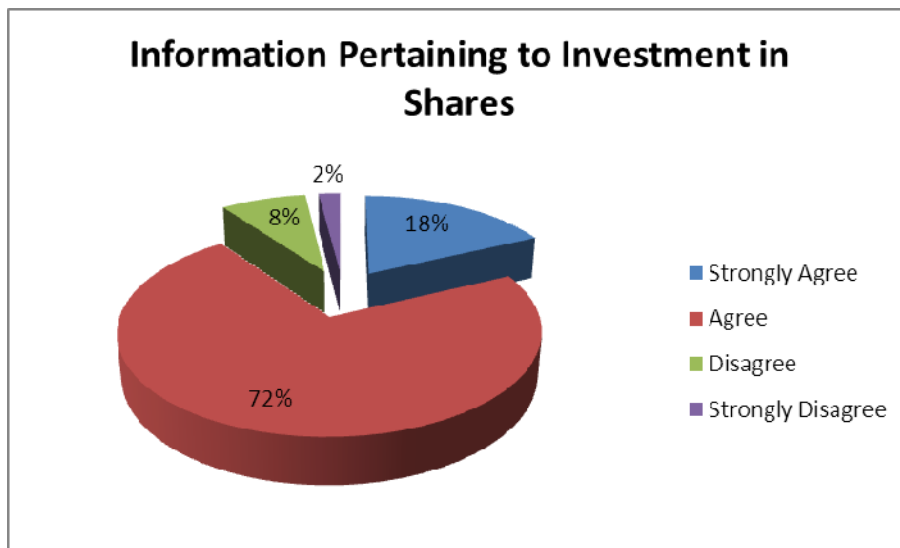
From the above results it can be concluded that the information pertaining to investing in bonds is not as available as opposed to the information pertaining to shares as shown in the below analysis on shares.

4.2.9: Investments in Shares.

Table 4.9 Investments in Shares

	Frequency	Percent
Strongly Agree	9	18
Agree	36	72
Disagree	4	8
Strongly Disagree	1	2
Total	50	100

Figure 4.9 Investments in Shares.



Source: Author (2011)

As shown in the table and chart above, 18% of the respondents stongly agreed that there was avalability of information pertaining to investment in Bonds,72% agreed,while 8% disagreed , and 2% strongly disagreed .

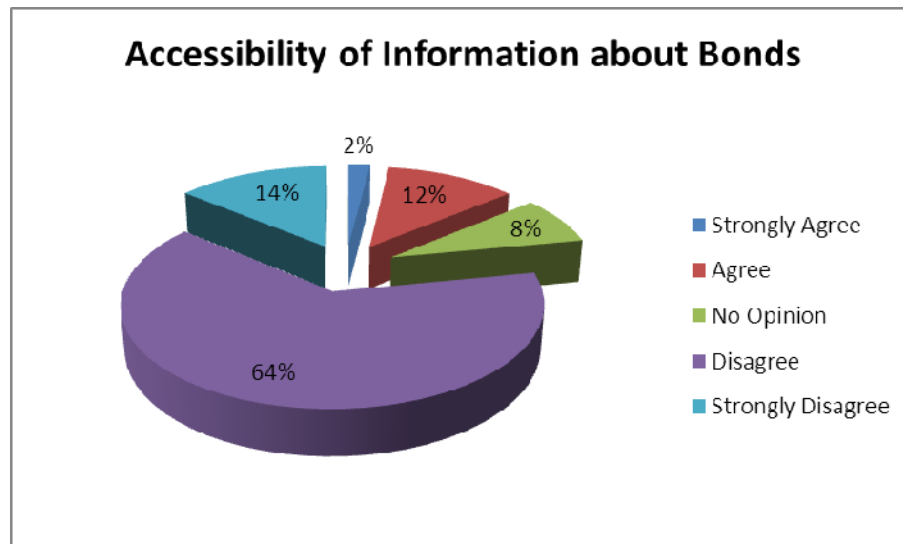
The results clearly indicate that as opposed to Bonds most of the respondents had more information about investing in shares.

4.2.10: information on Investing in Bonds.

Table 4.10 Bonds is easily accessible

	Frequency	Percent
Strongly Agree	1	2
Agree	6	12
No Opinion	4	8
Disagree	32	64
Strongly Disagree	7	14
Total	50	100

Figure 4.10 Accessibility of information on bonds



Source: Author (2011)

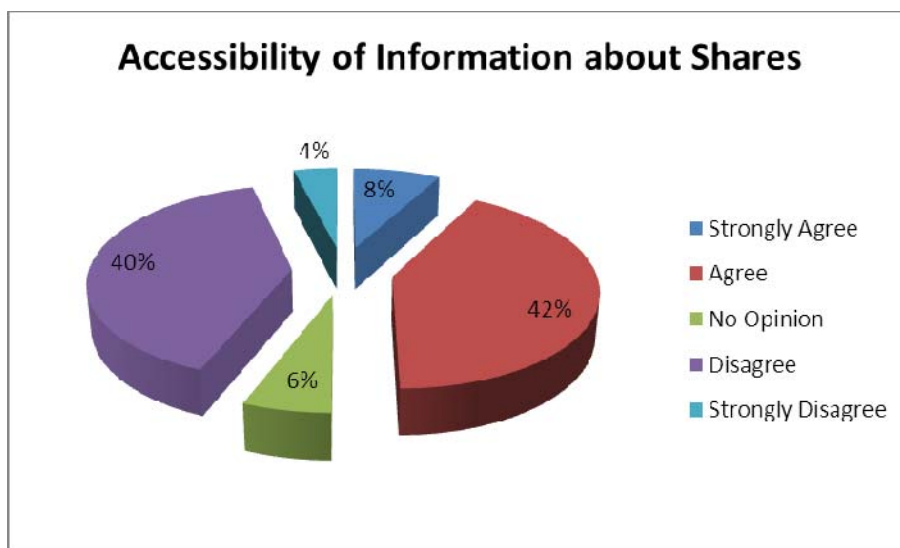
As shown in the table and chart above, 14% of the respondents strongly agreed that there was availability of information pertaining to investment in Bonds, 12% agreed, while 64% disagreed, and 14% strongly disagreed while 8% had no opinion. This means that the information pertaining to investing in Bonds is not as accessible as the one pertaining to investing in Shares.

4.2.11: Investments in Shares.

Table 4.11 Accessibility in Shares

	Frequency	Percent
Strongly Agree	5	10
Agree	5	10
No Opinion	5	10
Disagree	27	54
Strongly Disagree	8	16
Total	50	100

Figure 4.11 Accessibility of Shares.



Source: Author (2011)

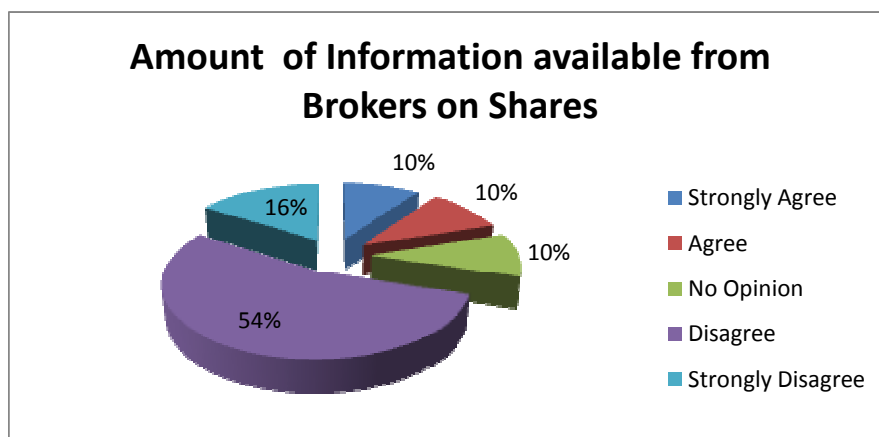
As shown in the table and chart above, 8% of the respondents strongly agreed that there was accessibility of information pertaining to investment in Shares ,42% agreed,while 4% disagreed , and 14% strongly disagreed while 6% had no opinion.Contrary to the response pertaining to investing in Bonds,majority of the respondents felt that information pertaining to investing in shares is easily accessible.

4.1.12 Availability information of shares from brokers

Table 4.12 Availability of shares from Brokers

	Frequency	Percent
Strongly Agree	5	10
Agree	5	10
No Opinion	5	10
Disagree	27	54
Strongly Disagree	8	16
Total	50	100

Figure 4.12 Amount of information from Brokers



Source: Author (2011)

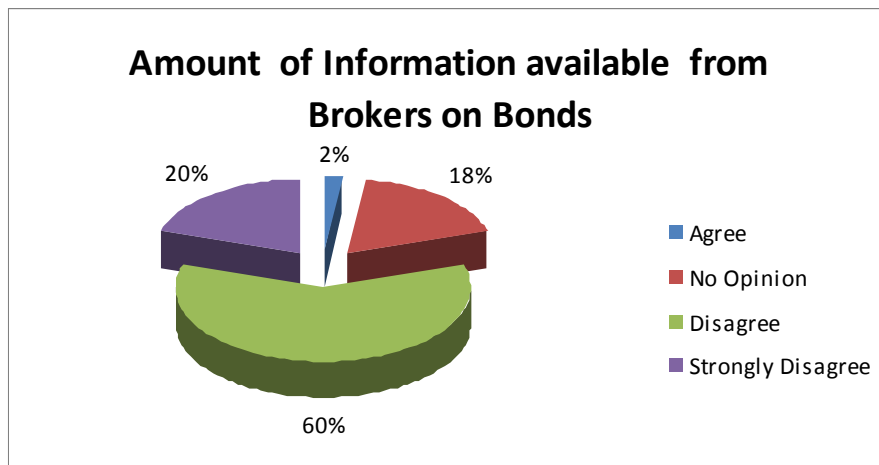
As shown in the table and chart above, 10% of the respondents stongly agreed that there was information pertaining to investment in Shares from brokers ,10% agreed,while 54% disagreed , and 16% strongly disagreed while 6% had no opinion.From the analysis it is clear that 70%felt that the information about shares is not available.

4.1.13: Availabilibility of Information on Bonds from Brokers

Table 4.13 Availability of information relating to bonds from brokers.

	Frequency	Percent
Strongly Agree	3	6
Agree	3	6
No Opinion	6	12
Disagree	27	54
Strongly Disagree	11	22
Total	50	100

Fig 4.13; Information available from brokers on bonds



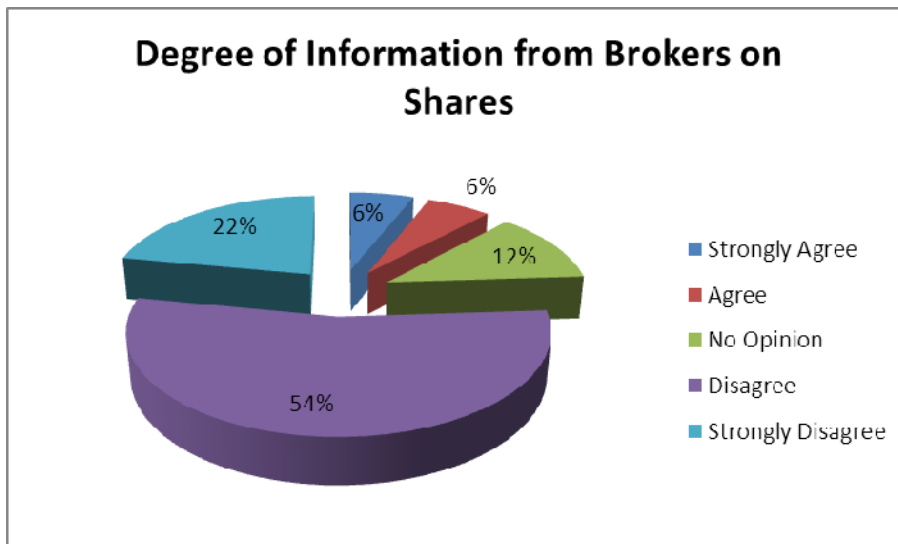
Source: Author (2011)

As shown in the table and chart above, 2% agreed that there was availability of information from brokers on bonds, while 60% disagreed, and 20% strongly disagreed while 18% had no opinion.

This means therefore that one of the major causes as to why fewer people invest in shares as opposed to bonds is due to lack of market information from brokers. More number of respondents disagreed as compared to the ones who disagreed about the amount of information available from brokers on Bonds, i.e. 70% and 80% respectively.

4.1.14: Degree of information from Brokers.

Figure 14: Degree of Information from brokers



Source: Author (2011)

As shown in the table and chart above, 6% strongly agreed that there was availability of information from brokers on Shares, while 6% agreed, 54% disagreed and 22% strongly disagreed while 12% had no opinion.

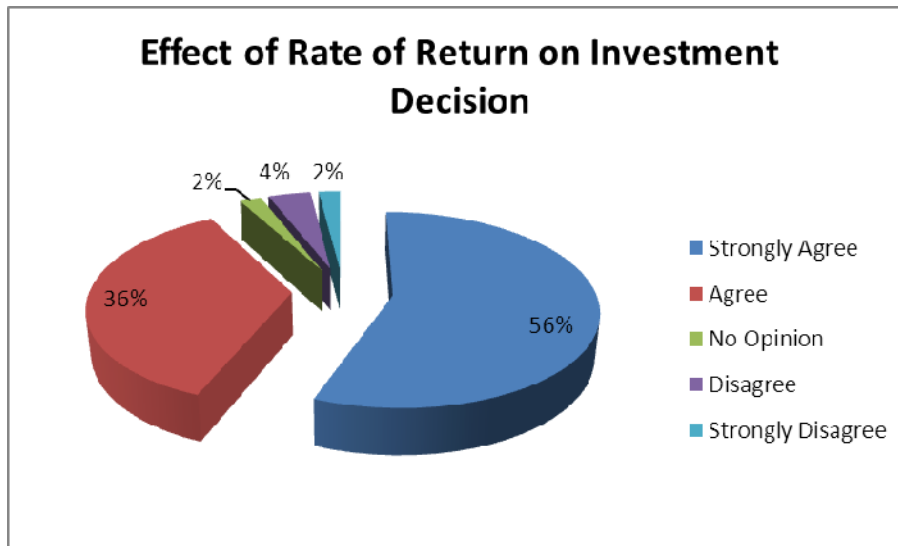
This means that the degree of information from Brokers is not enough to enable investors to make wise investing decisions.

4.1.15: Effect of rate of return to investment decision.

Table 4.15 Rate Of Return Factor

	Frequency	Percent
Strongly Agree	28	56
Agree	18	36
No Opinion	1	2
Disagree	2	4
Strongly Disagree	1	2
Total	50	100

Figure 4.15 Effect of rate of return.



Source: Author (2011)

Rate of return is a factor which affects decision making of many investors. According to respondents 56% of those interviewed opined that they based their investment decision depending on rate of return factor. 56% strongly agreed, 36% agreed while 4% disagreed, 2% strongly disagreed and 2% didn't give an opinion.

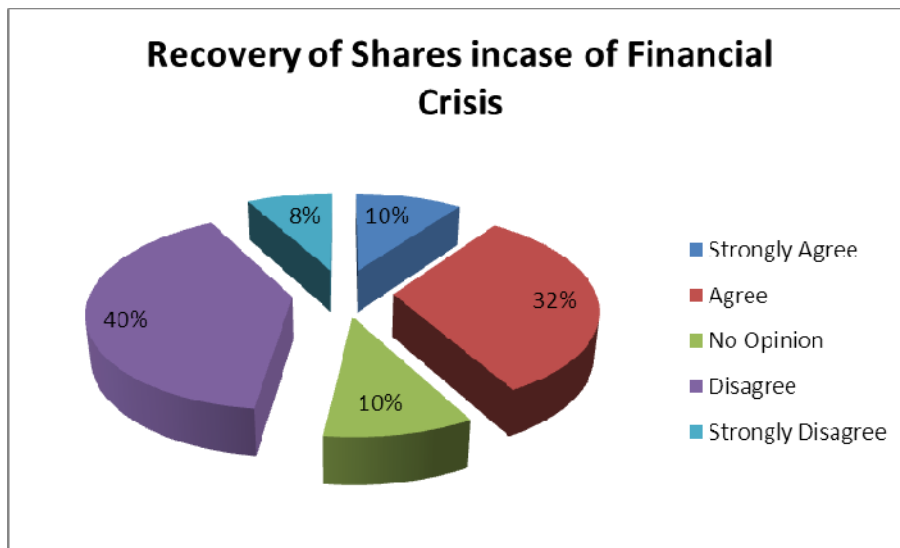
This clearly indicates that most of the respondents base their investment decision on the rate of return on the investment.

4.1.16: Recovery of investment in case of a liquidation of a company.

Table 4.16. Recovery of investment incase of financial crisis

	Frequency	Percent
Strongly Agree	5	10
Agree	16	32
No Opinion	5	10
Disagree	20	40
Strongly Disagree	4	8
Total	50	100

Figure 4.16 Recovery of investment in case of a company getting liquidated.



Source: Author (2011)

As is shown the above table and pie chart most respondents felt that its risky to invest in shares as the recovery of investment is not guranteed incase a company went into liquidation.10% strongly agreed that one can be able to recover the investment 32 % agreed 40% disagreed while 8% strongly disagreed and 10% didnt give their opinion.

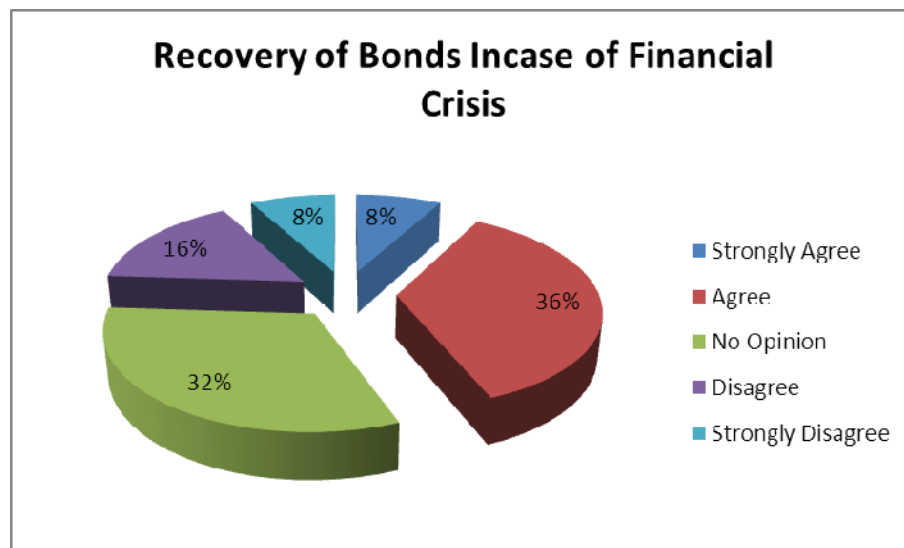
When companies fall ino liquidity crisis it is easier to recover the investment incase of Bonds as opposed to shares.

4.1.17: Recovery of investment in case of a liquidation of a company. (Bonds)

Figure 4.17 Recovery of bonds incase of financial crisis

	Frequency	Percent
Strongly Agree	4	8
Agree	18	36
No Opinion	16	32
Disagree	8	16
Strongly Disagree	4	8
Total	50	100

Figure 4.17 Recovery of investments incase of a liquidation of a company(bonds)



Source: Author (2011)

According to the above table and pie chart most respondents felt that its not as risky to invest in bonds as opposed to shares as the recovery of investment is likely to be recovered incase a company went into liquidation.8% strongly agreed that one can be able to recover the investment 36 % agreed 16% disagreed while 18% strongly disagreed and 32% didnt give their opinion.

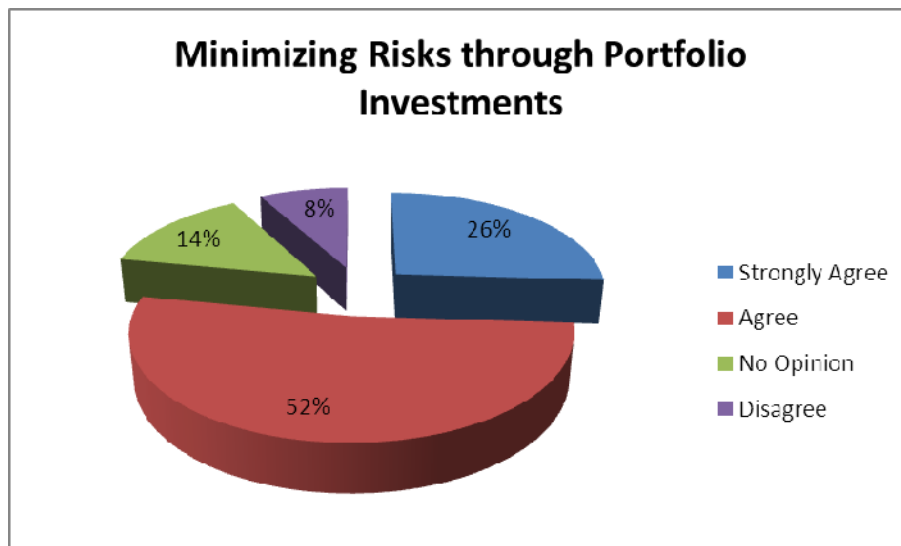
A bigger number of respondents didnt give their opinion probably due to lack of information.However a greater percentage were of the opinion that bonds are more secure when a company fell into liquidity crisis as opposed to Shares.

4.1.18 Minimising of risk through portfolio investment.

Table 4.18 Portfolio Investments

	Frequency	Percent
Strongly Agree	13	26
Agree	26	52
No Opinion	7	14
Disagree	4	8
Total	50	100

Figure4.18 Minimizing risk through portfolio investment



Source: Author (2011)

Portfolio investment is an investment where by one invests by buying shares of various companies. Many of the respondents felt that portfolio investments helps in minimising risks in investments. 26% of the respondents strongly agreed that through portfolio investment risk is minimised. 52% agreed with the statement while only 8% disagreed and 14 % didnt give their opinion.

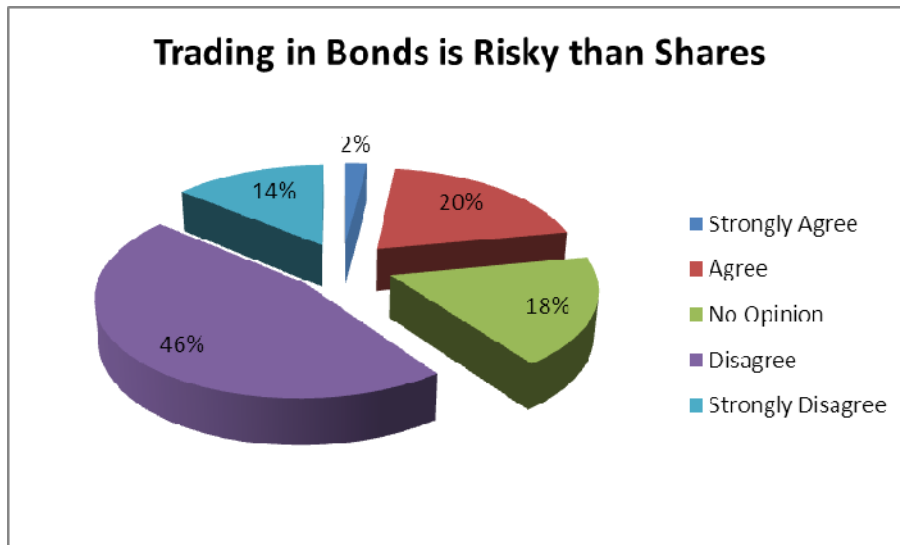
It can be deduced from the Analysis that many respondents engaged in portfolio investment as a way of mitigating Risks.

4.1.19 Risks In Bonds.

Table 4.19 Bonds more risky to trade than Shares

	Frequency	Percent
Strongly Agree	1	2
Agree	10	20
No Opinion	9	18
Disagree	23	46
Strongly Disagree	7	14
Total	50	100

Figure 4.19 Risks in Bonds.



Source: Author (2011)

According to the above table and pie chart most respondents felt that trading in bonds is less risky as opposed to shares. 2% strongly agreed that Bonds are more risky than shares, 20% agreed while 46% disagreed and 14% strongly disagreed. 18% of the respondents didn't give their opinion.

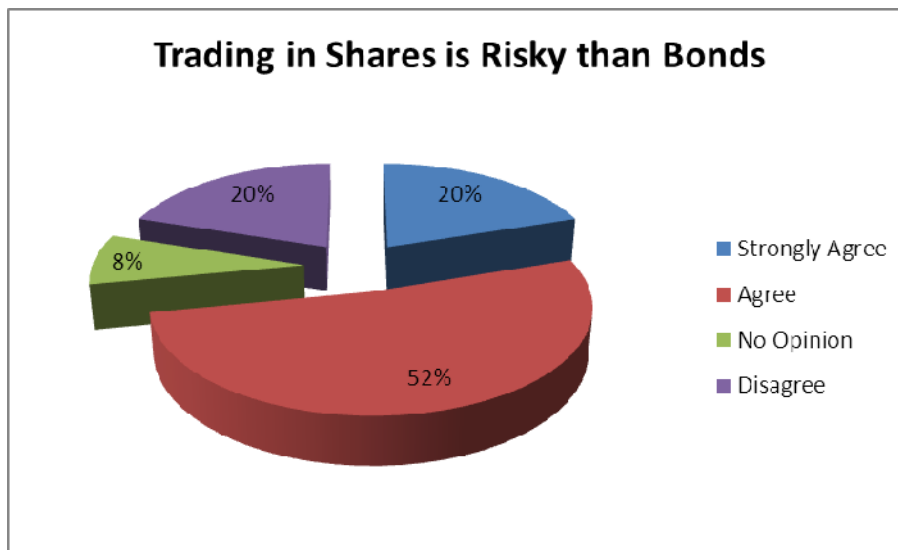
It's not as risky to invest in bonds as opposed to shares as the recovery of investment is likely to be recovered in case a company went into liquidation. 8% strongly agreed that one can be able to recover the investment 36% agreed 16% disagreed while 18% strongly disagreed and 32% didn't give their opinion.

4.1.20 Risks in shares.

Table 4.20 shares more risky to trade than bonds

	Frequency	Percent
Strongly Agree	10	20
Agree	26	52
No Opinion	4	8
Disagree	10	20
Total	50	100

Figure 4.20 Risks in bonds.



Source: Author (2011)

As shown in the table and chart above, 20% strongly agreed trading in Bonds was risky than in shares. 52% agreed while 20% disagreed and 8% did not have an opinion.

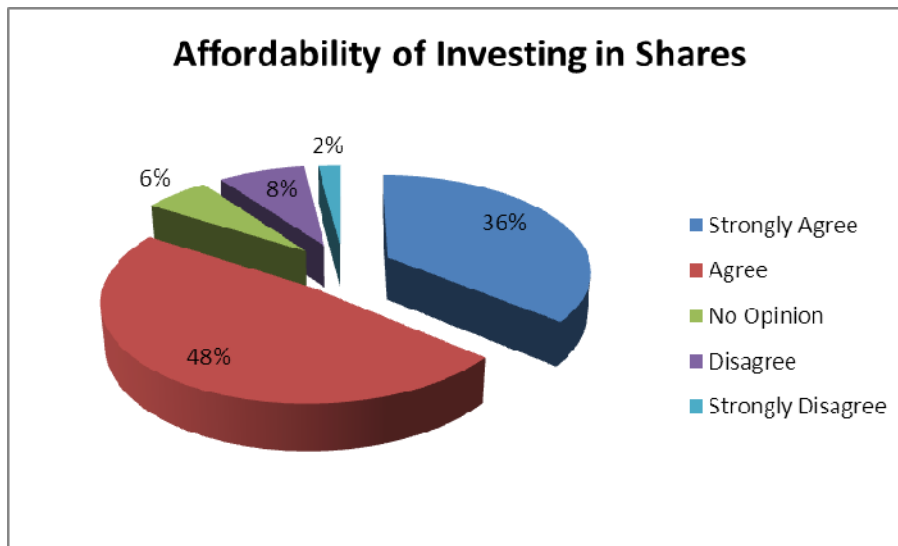
Majority of the respondents opined that trading in shares is more risky as opposed to the bonds.

4.1.21 Affordability of Shares.

Table 4.21 Affordability of Shares.

	Frequency	Percent
Strongly Agree	18	36
Agree	24	48
No Opinion	3	6
Disagree	4	8
Strongly Disagree	1	2
Total	50	100

Figure 4.21 Affordability of Shares.



Source: Author (2011)

Affordability was also a strong factor in investment decision. Many of the respondents agreed that it's a factor that influence them.36% strongly felt that it's an influence in investment.48% agreed, 8%disagreed 2%strongly disagreed wile as 6% didn't give their opinion.

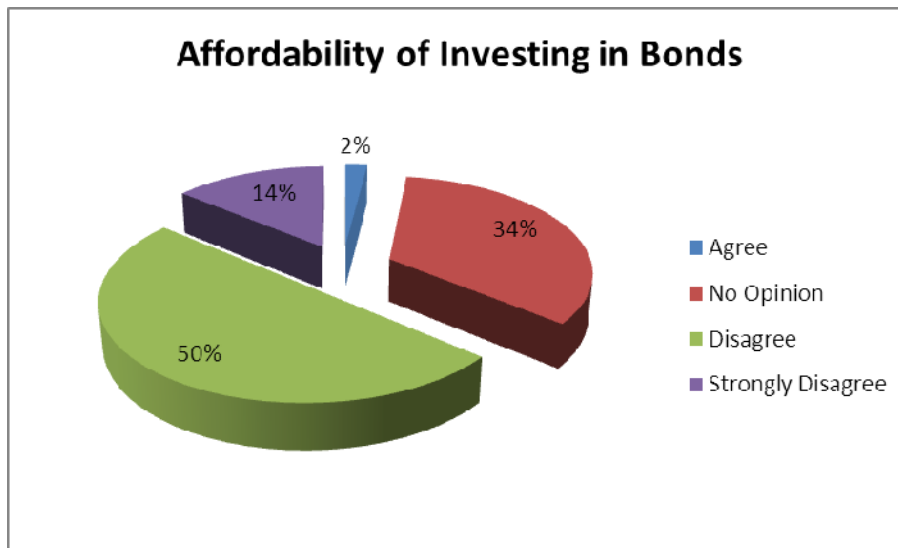
According to the analysis most people invested in Shares because they are more affordable as opposed to the Bonds whose minimum capital requirement is fifty thousand shillings.

4.2.22 Affordability of Bonds.

Table4.22 Affordability of Bonds

	Frequency	Percent
Agree	1	2
No Opinion	17	34
Disagree	25	50
Strongly Disagree	7	14
Total	50	100

Figure 4.22 Affordability of bonds



Source: Author (2011)

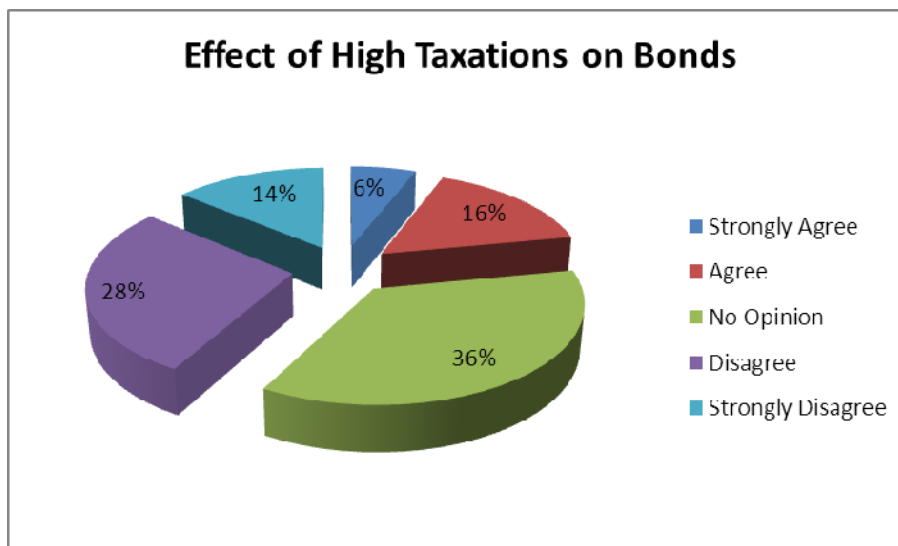
Affordability was also a strong factor in investment decision. As far as investments in bonds is concerned most of the respondents felt that affordability made them not to invest in them. Only 2% agreed that they were affordable with 50% confirming the cost discourages investment in bonds and 14 % also strongly agreeing that the Bonds are not affordable.

4.2.23 Taxation on bonds

4.2.3 Taxation Bonds

	Frequency	Percent
Strongly Agree	3	6
Agree	8	16
No Opinion	18	36
Disagree	14	28
Strongly Disagree	7	14
Total	50	100

Figure 4.23 Effect of High taxations on bonds



Source: Author (2011)

High taxation does not necessarily affect the decision to invest in Bonds.6% of the respondents felt that taxation affects them ,16% agreed that it's a factor but 28% disagreed with this statement.14% disagreed while 36% didn't give an opinion meaning that probably they didn't have the information about the levels of taxation.

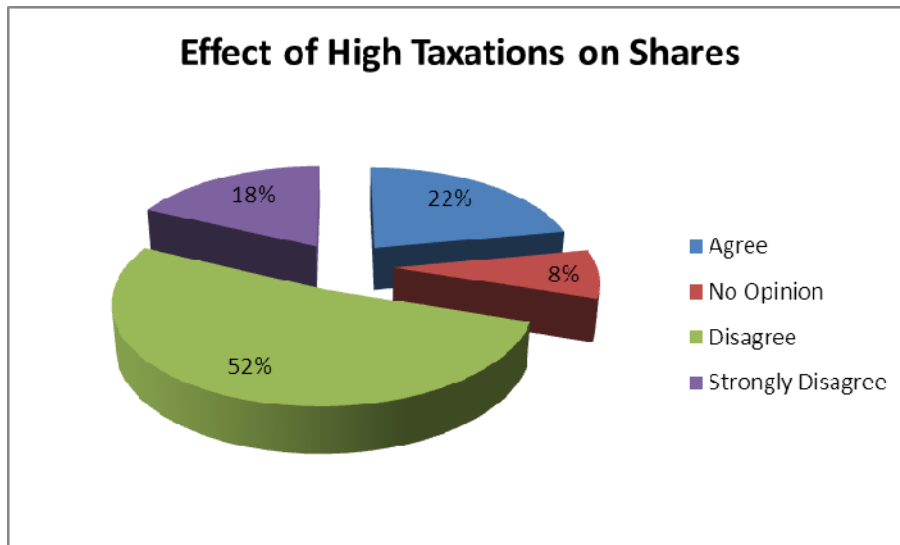
A big number of respondents didn't give an opinion .This may be due to lack of information about taxation .However the majority felt that their decision to invest in Bonds is not affected by the level of taxation

4.2.24 Taxation on shares

Table 4.24 Effect of high Taxation on shares

	Frequency	Percent
Agree	11	22
No Opinion	4	8
Disagree	26	52
Strongly Disagree	9	18
Total	50	100

Figure 4.24 Effect of high Taxation on shares



Source: Author (2011)

From the pie chart it's clear again that the majority of the respondents gave no opinion which can be attributed to unavailability of information. While as 22% agreed with the

fact that high taxation impact negatively in their decision to invest in shares, 18% strongly disagreed with, 52 % agreed and 8% had no opinion.

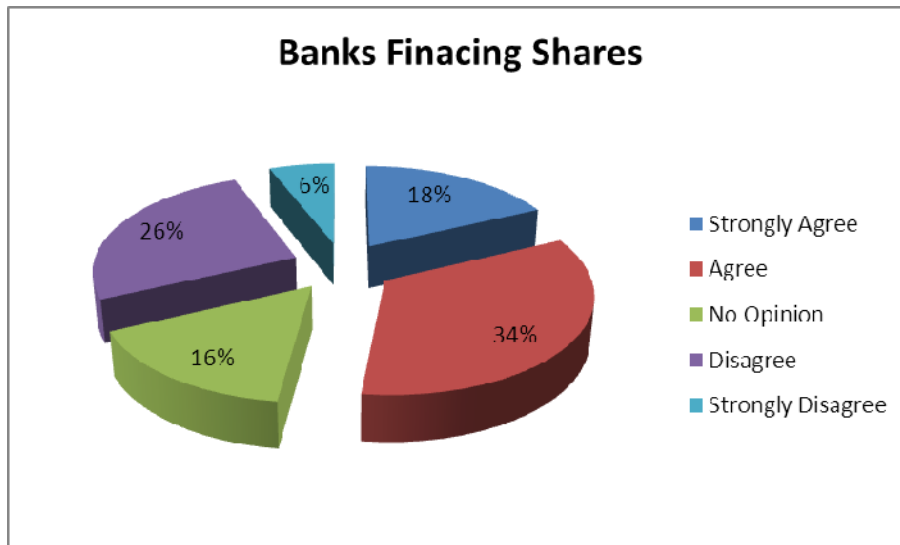
As opposed to bonds majority of the respondents felt that their investment in shares is not as affected by taxation the same way bonds are affected. This can be attributed again to lack of information pertaining to Bonds. The fact that 52% didn't give an opinion means that the levels of information about the taxation aspect was not clear among the respondents.

4.2.25 Finances of shares by Banks.

Table 4.25 Bank finances on shares

	Frequency	Percent
Strongly Agree	9	18
Agree	17	34
No Opinion	8	16
Disagree	13	26
Strongly Disagree	3	6
Total	50	100

Figure 4.25 Banks financing shares



Source : Author (2011)

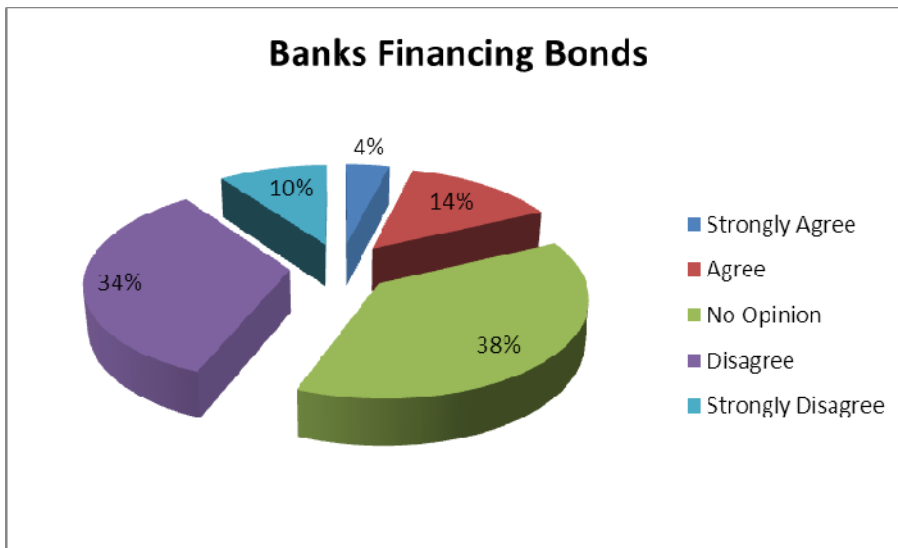
Most of the respondents were of the opinion were of the feeling that Banks normally give finance on the investment in shares.18% strongly agreed, 34%agreed 26% disagreed and 6% strongly disagreed.16% didn't give an opinion.

4.2.26 Finances of Bonds by Banks.

Table 4.26 Bank Finances Bonds

	Frequency	Percent
Strongly Agree	2	4
Agree	7	14
No Opinion	19	38
Disagree	17	34
Strongly Disagree	5	10
Total	50	100

Figure 4.26: Banks financing bonds



Source: Author (2011)

According to finances on shares majority didn't give an opinion. Only 6%, with 14% agreeing, 34%disagreed and 10 % strongly disagreeing, the rest 38 % didn't have an opinion.

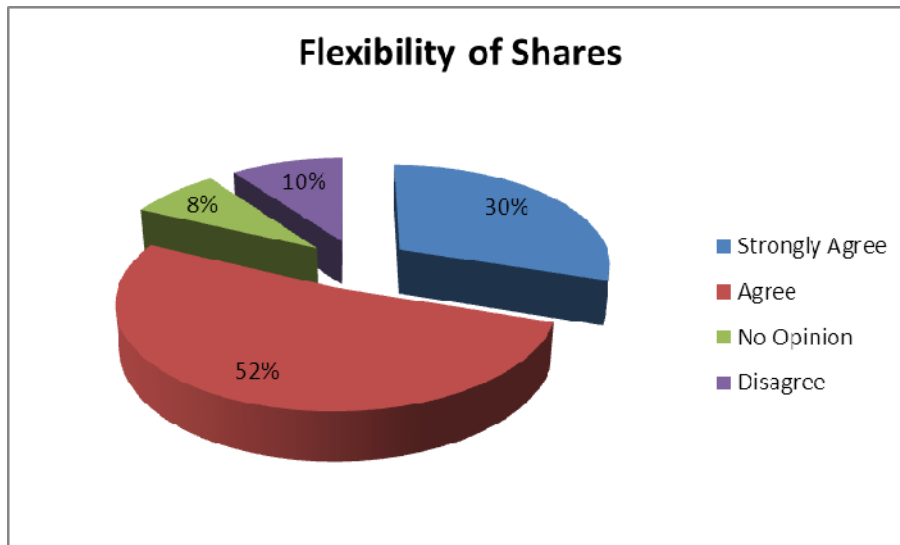
This means that majority of the respondents either doesn't have interest to invest in shares or lacked information. Most of the respondents don't get finance from Banks which can attributed to either lack of capacity to Qualify for the loans or lack of information.

4.2.27 Flexibility in transacting in Shares.

Table 4.27 Flexibility in transacting shares

	Frequency	Percent
Strongly Agree	15	30
Agree	26	52
No Opinion	4	8
Disagree	5	10
Total	50	100

Figure 4.27 Flexibility of shares



Source: Author (2011)

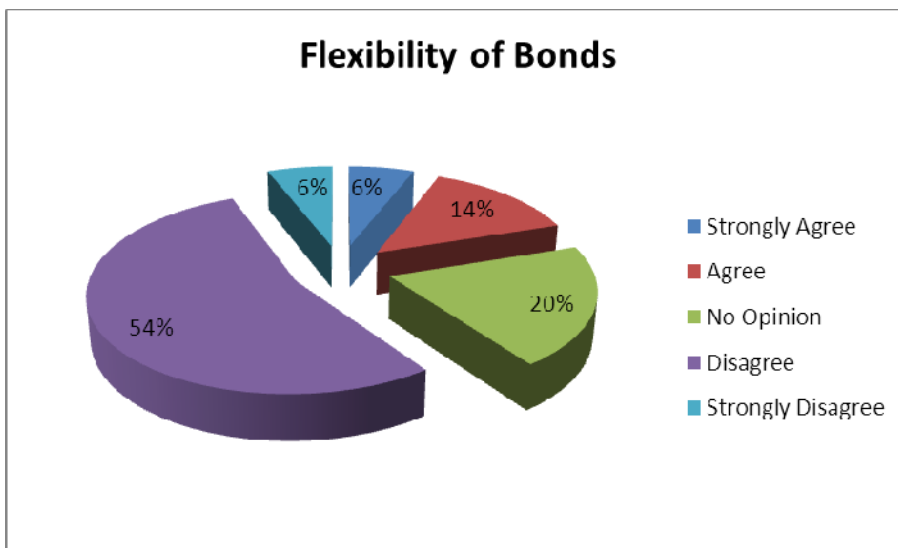
Flexibility in transacting was also a factor which majority of the respondents' agreed it has an influence on the choice of investment. Majority agreed that Flexibility of shares motivated them to invest more in shares as opposed to Bonds. 30% strongly agreed with this statement with 52% agreeing, 10% disagreeing and only 8% didn't have an opinion. Many people invest in shares because of their flexibility ie it is easier to sell and buy Shares unlike the Bonds where there's a long documentation process.

4.1.28 Flexibility in transacting in Bonds.

Table 4.28 Flexibility in transacting in Bonds

	Frequency	Percent
Strongly Agree	3	6
Agree	7	14
No Opinion	10	20
Disagree	27	54
Strongly Disagree	3	6
Total	50	100

Figure 4.28 Flexibility of Bonds



Source: Author (2011)

As opposed to the respond on flexibility on transactions pertaining to shares majority felt that bonds were not as flexible as shares to transact in, while only 6% only agreed and 14% agreeing 54%disagreed and 20% had no opinion.

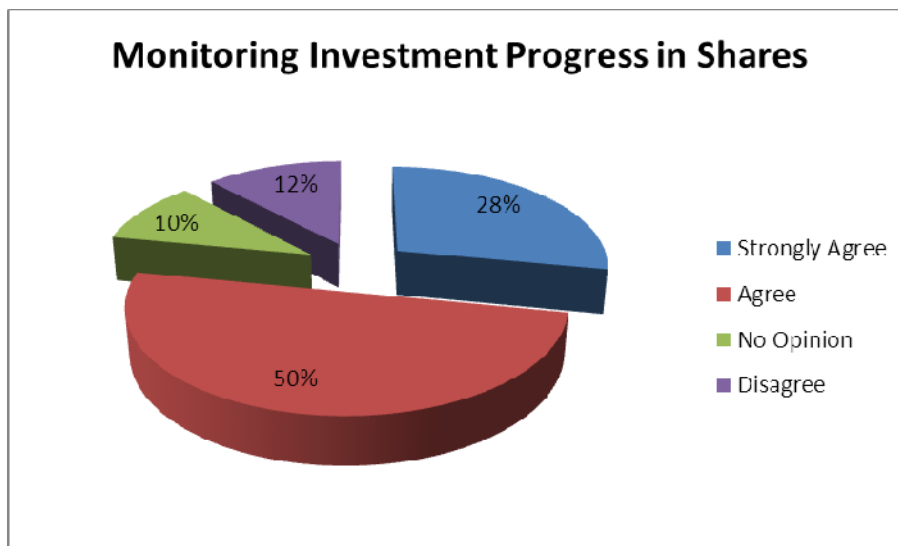
Bonds are not as flexible to transact with as Shares. Many people prefer to invest in Shares because it is easier to sell or buy Shares as opposed to Bonds. The fact that the minimum amount required to purchase a share is small compared to Bonds also makes Shares more attractive.

4.1.29 Monitoring investment progress in shares.

Table 4.29 Monitoring investment progress in shares

	Frequency	Percent
Strongly Agree	14	28
Agree	25	50
No Opinion	5	10
Disagree	6	12
Total	50	100

Figure 4.29 Monitoring investment progress in shares



Source: Author (2011)

Majority of the respondents felt that they invested in shares as they are more flexible to monitor as opposed to bonds, 28% of the respondents strongly agreed, 50% agreed with 12% disagreeing but 10% didn't have an opinion.

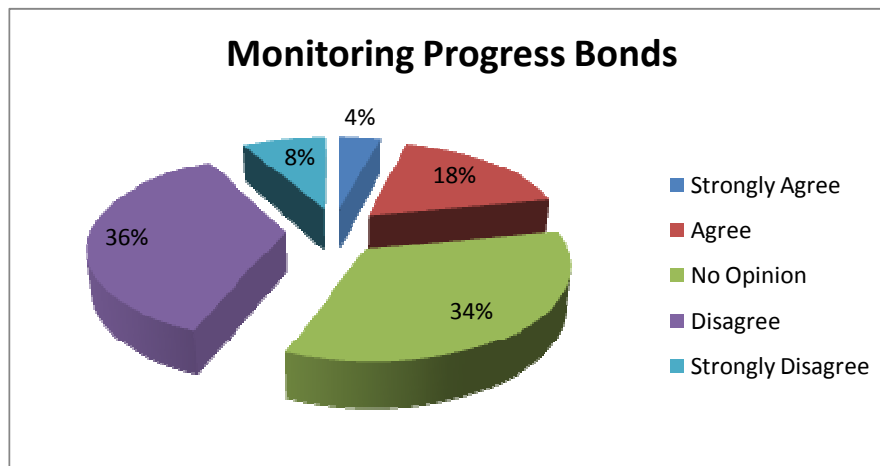
It's easier to monitor progress in Shares than in Bonds. This is a factor that makes the Shares more attractive than Bonds. It's easy for one to follow the growth in shares through the stock exchange information. The information on Bonds can't be easily interpreted from the stock exchange.

4.2.30 monitoring investment progress in Bonds.

Table 4.30 Monitoring investment progress in Bonds

	Frequency	Percent
Strongly Agree	2	4
Agree	9	18
No Opinion	17	34
Disagree	18	36
Strongly Disagree	4	8
Total	50	100

Figure 4.30 Monitoring Bonds progress



Source: Author (2011)

Transactions involving Bonds are not as flexible as the ones for shares according to majority of respondents. Only 4% strongly agreed, 18 % agreed with 36% disagreeing and 8% strongly disagreeing. The rest 34% didn't have an opinion.

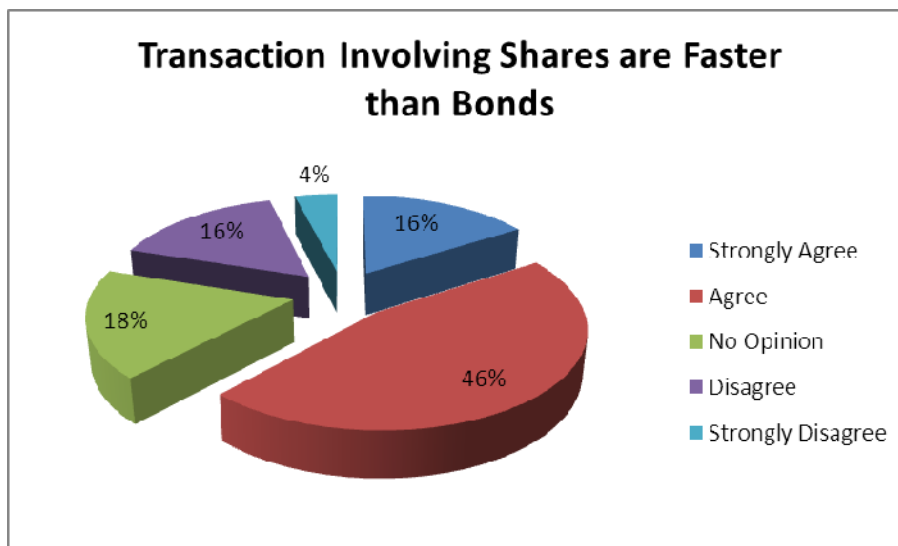
The fact that it is not easy to monitor progress in Bonds makes them less attractive.

4.1.31 Speed of transaction in shares.

Table 4.31 Speed of transaction in shares

	Frequency	Percent
Strongly Agree	8	16
Agree	23	46
No Opinion	9	18
Disagree	8	16
Strongly Disagree	2	4
Total	50	100

Figure 4.31 Speed of transaction in shares



Source: Author (2011)

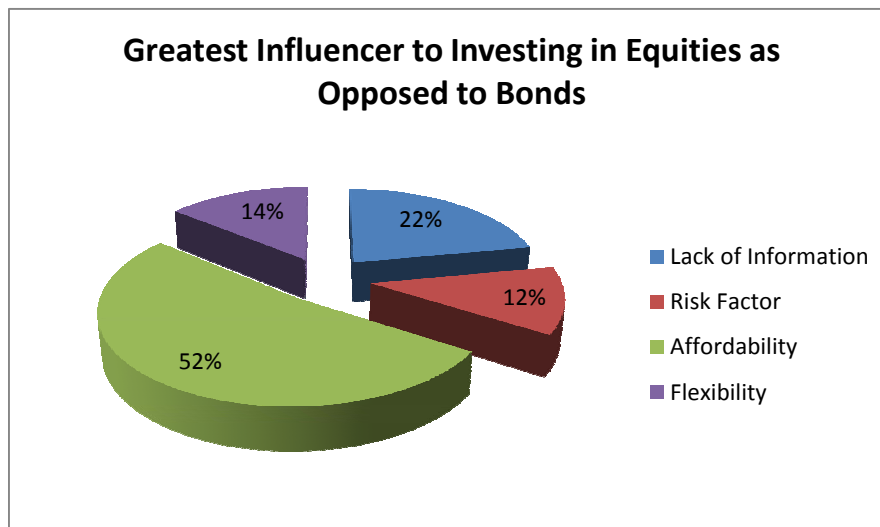
Transaction involving shares are faster than those involving bonds. 16% strongly agreed 46% agreed 16% disagreed and 4% strongly disagreed. 18% didn't have an opinion. Transactions involving Bonds take a longer time than the ones involving Shares. This is a factor that makes more people prefer Shares as opposed to Bonds.

4.2.32 greatest influencer to investing shares and bonds.

Table 4.32 Greatest Influencer

	Frequency	Percent
Lack of Information	11	22
Risk Factor	6	12
Affordability	26	52
Flexibility	7	14
Total	50	100

Figure 4.32 Greatest Influencer



Source: Author (2011)

Majority of the respondents admitted that they are influenced more to invest in shares by their affordability as opposed to Bonds. They opined that bonds were a more expensive form of investment.

52 % of the responds felt that affordability was their greatest their influencer as opposed to 22% who were influenced to investment in shares due lack of information on Bonds, while 14% were influenced by flexibility and rest 12% were influenced risk factors.

When making an investment decision investors consider several factors. The major factor is the cost of the investment .Regardless of how viable a investment is without capital then one is not able to invest. Majority of investors felt that the key factor which they put into consideration was affordability.

CHAPTER FIVE

5.1 INTRODUCTION

This chapter discusses the summary of findings conclusions and recommendations of the research study, the presented research findings were further explained into details to give more understanding on the factors influencing investors to invest in equities as opposed to Bonds in Kenya commercial Bank ,this further contributed towards making of the summary of findings ,answering of the research questions and making conclusions of the study, recommendations of the study were made, to address more other factors that influence Investors to invest in equities as opposed Bonds in Kenya.

5.2 SUMMARY OF FINDINGS

From the studies in the industry 2% of the respondents were aged between 18-23 years while 24% aged between 24-29 years, 32% aged 30 – 35 years and 18% 36-41 years and 24% were above 24 years. This is an indication that majority of the people working in KCB are young.

A greater number of respondents on the respondents' gender, a majority 60% are male while 40% are female. The gender disparity is high among the respondents and is a reflection on how the employment in the KCB In Nairobi Nairobi branches where data collection was done.

As indicated by the findings in chapter four, Most of the respondents have acquired the education at Degree level, 78%. 16% of those who responded have diplomas on the profession while another 6% have had ordinary leve of study.

This significantly shows most of the respondents were university graduates showing a trend whereby kcb is now adopting a degree as the entrance level.

The results also indicated that 46% of the respondents agreed that the information about financial market is available,36% disagreed while 14% strongly disagreed and 4 % strongly agreed.This means that the most of the people in KCB have information about financial market.However, 2% agreed that there was availability of information from brokers on bonds,while 60% disagreed, and 20% strongly disagreed while 18% had no opinion.this means that information about investment was not being availed by the stock brokers.

This means therefore that one of the major causes as to why fewer people invests in shares as opposed to bonds is due to lack of market information from brokers

Portfolio investment is an investment where by one invests by buying shares of various companies. Many of the respondents felt that portfolio investments helps in minimising risks in investments. 26% of the respondents strongly agreed that through portfolio investment risk is minimised. 52% agreed with the statement while only 8% disagreed and 14 % didnt give their opinion.

Affordability was also a strong factor in investment decision to most of the respondents. Many of the respondents agreed that it's a factor that influence them. 36% strongly felt that it's an influence in decision making in investment, 48% agreed, 8% disagreed 2% strongly disagreed while as 6% didn't give their opinion. This therefore meant that most of the Bank staff invests more in shares as opposed to Bonds due to their affordability.

5.2 CONCLUSIONS

From the research it can be concluded that more staff in KCB invest in shares as opposed to bonds. The information about Bonds is not easily as accessible as shares both from the brokers and the government. Although most respondents concluded that trading in bonds is less risky than Shares majority didnt have the information about Bonds. This is been acclaimed by the fact that 18% didnt give any opinion on the risk in Bonds as opposed to 8% in shares. The research further found out that due to fixed rate of interest and term of investment Bonds are less risky.

According to the research ,affordability of shares makes more people prefer shares to Bonds as a form of investment. Bonds are more expensive and hence unaffordable as the minimum requirement is far above what many people can afford.

Shares are by far more flexible than bonds hence more preference than Bonds as a form of investment. Since shares can be sold easily and at any time it makes it more attractive than Bonds. The speed of transacting in shares is faster than that of Bonds. According to the research one can easily monitor the way shares are moving as opposed to Bonds which whose monitoring can be complicated.

According to the respondents, 52 % felt that affordability was their greatest their influencer as opposed to 22% who were influenced to investment in shares due lack of information on Bonds, while 14% were influenced by flexibility and rest 12% were influenced by risk factors.

The overall conclusion was that the greatest influencer of investment was affordability,hence since shares are more affordable then more people prefer shares to Bonds.

5.3 RECOMMENDATIONS

Government should avail information about the Bond markets as more publicity is required regarding this market.

More people are dont have information on how the Bond market operate so the government needs to provide more information.The minimum amount required to invest in a bond should be reduced to attract more investors. The current minimum requirement of kshs 50,000 is prohibitive hence this requires to be adjusted downwards.The trading Bonds should be made as simple as that of the shares for them to attract investors.The transferability should be easier just like Shares,ie the transfer process should be just as short and easier as in shares.As a motivator to invest in Bonds the taxation should be reduced to encourage more investment.

The government should also consider Educating more people on investment by possibly including this in their school curriculum.

The speed of the transactions involving Bonds should also be improved to match those of shares.As it is currently the prosess of buying or selling a Bond is quite long .It is therefore important to shorten the process so as to encourage more investors.

5.4 LIMITATION OF STUDY

Since the study specifically narrowed down to the Kenya Commercial Bank, it cannot be generalized to the banking industry. Therefore, inference cannot be made from it by other players in the industry. The research further needs to be carried out to the entire country to establish whether the findings would be the same. Also, the research needs to be extended to other Banks in the country.

5.5 SUGGESTIONS FOR FURTHER READING

The study recommends that further research can be done to determine whether Shares are more preferable than Bonds. This needs to be done across all the banking sector and to the country at large. This will enable the government to make appropriate measures to improve the situation.

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APPENDICES

APPENDIX A: QUESTIONNAIRES

APPENDIX B: LETTER OF AUTHORITY TO COLLECT DATA