ABSTRACT

This study aimed at establishing the Influence of investor's behaviour on the performance of Nairobi Securities Exchange (NSE) indices. A reliable security market index should assist investors in making investment decisions but this is not always the case: investors at times invest in stock whose performance is not reflected in the indices. This study was guided by specific objectives which included: to establish the Influence of momentum effect, financial contagion, white noise effect, Security Price Volatility, and Herding Effect (all as independent variables) on performance of NSE indices as the dependent variable. This study was anchored to finance theories such as random walk theory, rational bubbles theory, smart money and noise trader's theory, price formation and discovery theory, and information disclosure theories. The study was based on a period of 12 years starting from January 2004 to December 2015. The population of this study comprised of all the market participants at the NSE and thus a census approach was adopted where study period was done based on each specific objective. This research relied on primary data. Primary data was collected from all the market participants. In data analysis, a significance level of 5% was used on all objectives and a multiple regression model on each objective was used. The Statistical Package for Social Sciences (SPSS) was used on primary data for analysis. The findings for primary data showed all the indices to be insignificantly influenced by the securities behaviour but the overall NSE indices performance was statistically affected. Hypotheses were tested at 0.05 level of significance. The first hypothesis on momentum effect was not rejected on primary. The second hypothesis on financial contagion was rejected and.on the hypothesis of white noise effect, it was not rejected. The hypothesis of Security Price Volatility effect was not rejected while hypothesis of herding effect was rejected. It was concluded that all the indices play a complimentary role thus the need for the retention of all. NSE is highly contagious of the events that happen around it. The study recommends that future researchers should increase the respondents to also include investors. For the objective of momentum effect, the study recommends that more exchanges be included to get a finer detail. NSE and CMA should ensure that information availed to the researchers is obtained at minimal cost or for free to encourage more research into the security markets