

ABSTRACT

Stock markets form a very important component of wealth generation and wealth redistribution in the Kenyan economy. Given that Kenya is one of the fast Developing countries Africa, it has attracted a wide range of investors both local and foreign who have a high appetite in investing in local firms which have a high growth potential. Moreover, the Kenyan economy is growing at a significantly positive way reflecting to an increase in disposable income for the population such that they are able to put their disposable income into investments which are desirable and promising higher returns. The NSE provides one of the platforms for investment into the Kenyan economy and as such, it has generated the interest of many investors which has resulted to the development of various Indices in NSE and has made it necessary to analyze the performance of the Kenyan Stock Market which helps to guide investors on their diversification strategies. The study aimed at analyzing the relationship between portfolio selection and performance of the NSE with specific reference to the large cap stocks in Kenya. The study applied the Sharpe Single Index model for analysis. Firstly, the study established that there exists an inverse relationship between portfolio risk and performance of the large cap stocks in Kenya. Secondly, the study identified that there is an inverse relationship between portfolio return and performance of large cap stocks in Kenya. However, the inverse relationship between portfolio risk, portfolio return and performance of large cap stocks in Kenya is insignificant. This can be attributed to the various micro and macro-economic factors which influence the performance of the securities market. Thirdly, the study established that there exists a positive relationship between security weights and performance of the large cap stocks in Kenya. The study also noted the simplicity and suitability in application of the Sharpe single index model. The study recommended that investors should apply the SIM for portfolio construction and analyze assets with consideration of other market factors other than the risk free rate of return

Keywords

Large capitalization stocks