

**Determinants of Demand for Collective Investment Scheme in Kisumu
City**

By

Omondi Timothy Osano

D61/63472/2010

Supervisor: Otieno Luther Odhiambo

**A Research Project Proposal Submitted in Partial Fulfillment of the
Requirements for the degree of Masters of Business Administration of
School of Business, University of Nairobi**

October 2012

DECLARATION

I hereby declare that the project work entitled ‘Determinants of Demand for Collective Investment Scheme in Kisumu City’ submitted to The University of Nairobi, is a record of an original work done by me under the guidance of Mr. Luther Otieno Odhiambo of the School of Business of The University of Nairobi Kisumu Campus, and this project work has not performed the basis for the award of any Degree of diploma/associated ship/fellowship and similar project if any.

Signed: _____ 8th November 2012

TIMOTHY OMONDI OSANO
D61/63472/2012

This research project has been submitted for examination with my approval as the University Supervisor

Sign:.....Date.....

Mr. Luther Odhiambo Otieno
Lecture,
Department of Finance and Accounting
School of Business,
The University of Nairobi

DEDICATION

This research paper is dedicated to my brothers and my mentor Dr Hezron Otieno Mc'Obewa who have been my constant source of inspiration. They have given me the drive and discipline to tackle any task with enthusiasm and determination. Without their prayers, whim and support this project would not have been made possible.

ACKNOWLEDGEMENT

Sincere gratitude is hereby extended to the following who never ceased in helping until this is structured:

My Research advisor Mr. Luther Odhiambo Otieno from the University of Nairobi, for his continuous according me the academic guidance and support that has helped me complete this research work. .

Mr. David Onguko, statistician and M&E Ogra Foundation-Kisumu for the mathematical expertise that indeed contributed positively in the analysis and interpretation of data;

The members of the defense panel, Chairperson, Mr. Nixon Omoro, Dr. Joshua Wanjare, Mr. Dan and Mr. Jaleha Alex for sharing their precious time and positive insight;

Research assistants Miss Sharon Atieno Oyudo, Mr. Reagan Onyango, Mr. David Odhiambo Rambo and Mr. Peter Chrispine Otieno, for their support on administering primary data collection tool to the respondent.

Dr. Hezron Otieno Mc'Obewa, CEO NGO Co-ordination Board-Kenya, Dr. Steve Okello and Mr. George Ariya Program Managers-Ogra Foundation Kisumu, Harriet Adhiambo-Port Florence Community Hospital for unwavering moral, emotional and financial support.

The researcher thanks colleagues and friends for the idea and suggestions shared in this study.

Above all, my uttermost appreciation goes to the Almighty God for helping me finish this academic endeavor.

ABSTRACT

Title: Determinants of Demand for Collective Investment Scheme in Kisumu City

Recent studies have ranked Kisumu City low on socio-economic outcomes with majority of residents living below the poverty line. However, the city provides opportunities at various levels including investment. Collective Investment Schemes encourage savings and capital formation by retail investors who may not be having enough funds for large scale investment.

The objective of this study was mainly to identify the determinants of demand for collective investment schemes in Kisumu City. Several positive features of mutual funds attract investors to invest via the funds and form the basis of demand for the funds. The study therefore, set to identify these factors that allure Kisumu City investors to the schemes.

The research design employed was a descriptive survey study for organizations selected. The design is a fact finding one that describes the state of affairs as it is. The researcher used this design to find out the respondents' attitude and opinion about factors that allure investors to CIS in Kisumu City.

The respondents were originally obtained by a cluster sampling technique. Two clusters obtained were Sacco's and investment companies. Then a second random sampling was conducted. Each cluster had 25 organizations randomly sampled to complete the research tool. A total sample of 50 organizations was eventually obtained.

The primary data collected was analyzed by capturing all the responses on a MS Excel spreadsheet and converting it into statistical data. The researcher used analysis of variance to analyze the data. Chi-square model was adopted to test the null hypothesis.

The survey also found out that diversification is the leading determinant of demand for CIS together with, liquidity values for money expertise in professional management, potential superior returns, low transaction cost, safety and transparency, easy and affordable, flexible investment options. Tax efficiency was found to be the most unattractive feature. This could be attributed to other factors; some of them may include

tax characteristics, investor taxation education, tax support services and so on. The researcher acknowledges the impact of the study on Collective Investment Schemes' policies and practice in Kisumu City and beyond.

TABLE OF CONTENTS

Title	Page
DECLARATION.....	i
DEDICATION.....	ii
ACKNOWLEDGEMENT.....	iii
ABSTRACT.....	iv
TABLE OF CONTENT.....	vi
LIST OF FIGURES.....	ix
LIST OF TABLES.....	x
LIST OF ABBREVIATION.....	xii
CHAPTER ONE:	
1. INTRODUCTION	
1.1. Background.....	1
1.1.1 Collective Investment Schemes.....	2
1.1.2 Kisumu City.....	4
1.2 Problem Statement.....	5
1.2.1 Research Questions.....	6
1.3. Research Objectives.....	6
1.4. Value of the Study.....	6
CHAPTER TWO:	
LITERATURE REVIEW	
2. Introduction.....	8
2.1 Sources of information for investment.....	8
2.2. Demand for Collective investment schemes.....	10

2.3. Determinants of demand for collective investment schemes.....	11
2.4 Conclusion.....	18

CHAPTER 3:

RESEARCH METHODOLOGY

3.0 Introduction.....	20
3.1 Research Design.....	20
3.2 Population of Study.....	20
3.3 Sample of Study.....	20
3.4 Data Collection.....	21
3.5 Data Analysis.....	21
3.5.1 Conclusion.....	22

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction	23
4.2 Organizations details.....	23
4.3 Investment knowledge.....	25
4.4 Knowledge about collective investment schemes.....	33
4.4 Investment in collective investment schemes.....	37

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary and Conclusion.....	62
---------------------------------	----

5.2 Recommendation.....	64
References.....	I-X
Appendix 1. Collective Investments Schemes Operational in Kenya.....	V-X
Appendix 2. Questionnaire on Collective Investment Schemes (CIS).....	VI-X

List of figures

Title	Page
1.1 Objectives of collective investment schemes.....	1
1.2 Worldwide Mutual Fund Asset Growth 2001-2006 (\$'Trillion).....	3
2-1 Reduction of Risk Diversification.....	14
2-2 Diversifiable and Non-diversifiable risks.....	15
2-3 Investment in Collective investment Schemes.....	17
4-1 Percentages of rates of highly preferred.....	28
4-2 Percentages for preference (out of 138).....	30
4-3 Percentages for preference for investment (out of 150).....	32
4-4 Total responses.....	34
4-5 Valid Percentages for responses.....	36
4-6 New or regular investors in CIS.....	38
4-7 Most attractive CIS features.....	41
4-8 what type of return preferred.....	43

List of Tables

Title	Page
Table i Organizational details.....	23
Table ii Number of years the organization has operated in Kisumu.....	24
Table iii The respondent’s organizational income for activities other than income...24	24
Table iv Involvement in any activity.....	25
Table v Average income per month for businesses.....	26
Table vi Factors preferred while investing.....	27
Table vii Preferred type of investment.....	29
Table viii Organizational investment horizon.....	31
Table ix Knowledge about collective investment schemes.....	33
Table x Investment in CIS.....	35
Table xi Position as CIS investor.....	35
Table xii Not invested in CIS.....	36
Table xiii New or regular investor in CIS	36
Table xiv features that determine demand of CIS.....	38
Table xv Source of information while investing in CIS.....	42
Table xvi Most preferred type of return.....	43
Table xvii Mode of investment in CIS preferred.....	44
Table xviii Preference of receipt of return.....	44
Table xix Diversification as an alluring CIS features * Ser No * Have you invested your money in CIS.....	46
Table xx Potential superior returns as an alluring CIS features * Ser No * Have you invested your money in CIS.....	47
Table xxi Easy and affordable investments as an alluring CIS features * Ser No * Have you invested your money in CIS.....	48
Table xxii Low transaction cost as an alluring CIS features * Ser No. * Have you invested your money in CIS.....	49

Table xxiii Expertise in professional management as an alluring CIS features * Ser No * Have you invested your money in CIS.....	50
Table xxiv Value for money as an alluring CIS features * Ser No * Have you invested your money in CIS.....	51
Table xxv Flexible investment option as an alluring CIS features * Ser No * Have you invested your money in CIS.....	52
Table xxvi Liquidity as an alluring CIS features * Ser No * Have you invested your money in CIS.....	53
Table xxvii Tax efficiency as an alluring CIS features * Ser No * Have you invested your money in CIS.....	54
Table xxviii Safety and transparency as an alluring CIS features * Ser No * Have you invested your money in CIS.....	55
Table xxix Source of information while investing in collective schemes * Ser No * Have you invested your money in CIS.....	56
Table xxx What type of return do you prefer? * Ser No. * Have you invested your money in CIS?.....	57
Table xxxi When you invest in mutual funds which mode of investment will you prefer? * Ser No. * Have you invested you[r money in CIS.....	58
Table xxxii How would you like to receive the returns every year * Ser No * Have you invested your money in CIS.....	59
Table xxxiii Chi-Square Tests on question 5 vs 6 section D.....	60
Table xxxiv Square Tests on question 4 vs 6 section D.....	61

List of Abbreviations

CIS	Collective investment Scheme
UN	United Nations
CMA	Capital Market Authority
CDSC	Central Depository and Settlement Corporation Limited
IPO	Initial Public Offering
KenGen	Kenya Electricity Generating Company
SEBI	Securities Exchange Board of India
NCAER	National Council of Applied Economic Research
MF	Mutual Funds
BRIC	Brazil, Russia, India and China
NBS	National Bureau of Statistics
CBD	Central Business District
SPSS	Statistical Package for the Social Science
ICI	Investment Company Institute
Sacco	Savings and Credit Cooperative Society

CHAPTER ONE

INTRODUCTION

1.1 Background

The main motivation for investors are first, to save; the desire to pass money from the present to the future in anticipation for the future cash needs, and secondly to increase wealth (Goetzman, 1997). As there is a trade-off between these two motivations, the investors needs to assess the inherent risk of losing money against the expected return of the investment (Bogle, 2003).

Investment theory explains the way in which investors specify and measures risk and returns. Broadly, investors are faced by systematic and unsystematic risks, which they deal with by constructing investment portfolios in order to reduce risk (Marx, et al. 2003). Portfolio theory of investing states that every rational investor, at a given level of risk, will accept only the largest expected return. More specifically, modern portfolio theory attempts to account for risk and expected return mathematically to help the investor find a portfolio with the maximum return for the minimum amount of risk (Harry Markowitz 1952)

Several forms of legal structures are commonly used for such funds, the most common of them being unit trusts, investment companies or contractual pools. However, these different structures all share common objectives as in figure 1.1 below:

Figure 1.1 Objectives of collective investment schemes

Diversification	Potentially superior returns
Low transaction cost	Easy and affordable investment
Value for money	Expertise in Professional Management
Flexible investment options	Lump sum investments
Monthly Investment Plan	Cash Withdrawal Facility
Liquidity &Tax efficient	Safe and Transparent

Investment in collective investment schemes is voluntary and requires for there to be a sufficient number of citizens with surplus savings to support them. In addition, because of the requirements for diversification and the need for liquidity to accommodate regular inflows and outflows of money, collective investment schemes need relatively highly developed stock, bond and money markets to provide an adequate range of investable securities.

Individual investors select specific mutual fund giving much emphasis to their asset allocation and effective diversification strategies (Piazza, 2011). A well-defined appropriate asset allocation strategy accurately reflects individual investors' investments objectives and preferences like time horizon return objective, risk tolerance among others. On the other hand effective diversification spread investment assets among different categories to achieve both variety of distinct risk-reward objectives and a reduction in overall risk.

1.1.1 Collective Investment Schemes

Collective investment schemes are pools of funds that are managed on behalf of investors by a professional money manager. The manager uses the money to buy stocks, bonds, or other securities according to specific investment objectives that have been established for the scheme. In return for putting money into these funds, the investor receives shares or units that represent his/her pro-rata share of the pool of fund assets. In return for administering the fund and managing its investment portfolio, the fund manager charges a fee based on the value of the fund's assets.

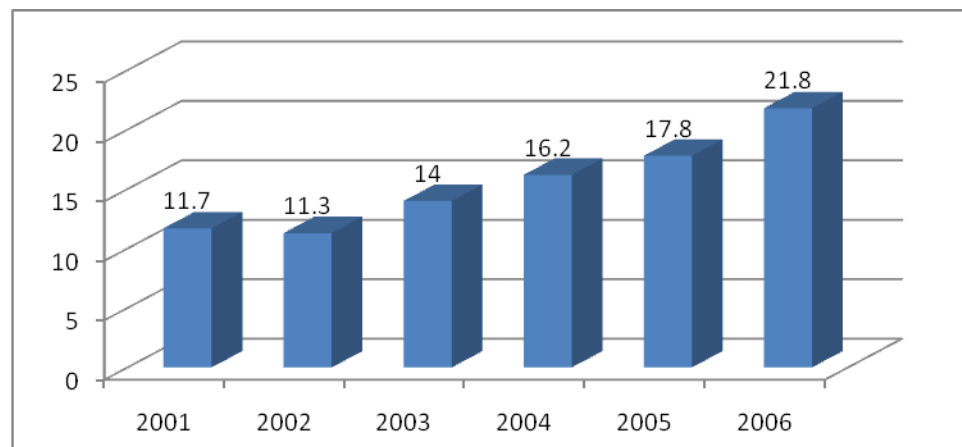
Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares and the investments are often out of reach for smaller investors. The pooling of investors' funds makes Collective Investment Schemes the ideal alternative, providing cost effective access to a wide variety of local and international equities, bonds, and money market instruments such as fixed deposits, treasury bills and call accounts.

Investment in collective investment schemes has seen steady world-wide growth in the last three decades. A survey conducted by Investment Company Institute(ICI) on 61,506

funds in 34 countries show net cash flow of (\$ 1,299 billion) into collective investment schemes in 2006 (Investment Company Institute, 2006a). That was actually four times higher than 2003 (\$317 billion). The graph below represents summarized growth of investments schemes' assets over six years up to 2006

Figure 1-2

Worldwide Mutual Fund Asset Growth 2001-2006 (\$'Trillion)



Source: Adopted from Investment Company Institute (2007a)

In Kenya Investor trust in collective investment schemes is once again on the rise. Market developments are increasingly determined by international trends that correspondingly affect the Kenyan market. The growth has been evident. Unit trusts have grown in acceptance and popularity in recent years. This is demonstrated by the growth in the number of approved unit trust funds from virtually zero in 2001 to 11 in 2008 (CMA, 2011).

CMA noted that at the time of issuing the data, the stated collective investment schemes (See appendix 1) were the once that were operational and were making necessary reporting in the local Dailies. However, others who had been licensed by CMA include CFC Unit trust, Dyer and Blair unit trust and Standard unit trust

Several forms of legal structures are commonly used for such funds, the most common of them being unit trusts, investment companies or contractual pools. However, these different structures all share common objectives. These are: Diversification – funds reduce risk by investing in a range of financial instruments (Marx ET al.2003); potentially superior returns; easy and affordable investment; expertise in professional management, liquidity, capital mobilization and lower transaction cost. In addition unit trusts are designed to give investors good value for money while within the reach of the average investors.

1.1.2 Kisumu City

UN-Habitat in their statement on Kisumu in a journal “Kisumu City Development Strategies”(UN-Habitat, 2003), stated that Kisumu, the third largest city in Kenya, has developed progressively from a railway terminus and internal port in 1901, to become the leading commercial, trading, industrial, communication and administrative center in the Lake Victoria basin, an area that traverses the three provinces of Nyanza, Western and western Rift Valley. In addition, they suggested, Kisumu serves as the communication and trading confluence for the Great Lakes region - Tanzania, Uganda, Rwanda and Burundi.

The research was to determine the determinants of demand of collective investment schemes in Kisumu City. With several investment opportunities in transport, agriculture, service and industrial sectors, there is growing need for the residence of Kisumu City to take opportunities in these openings. For that to be realized there is a growing need for investment financing that has so far remained elusive to individual investors and would-be investors.

In the same scenario, the investors are in search for knowledge on set of rules, behaviors or procedures, designed to guide their selection of an investment portfolio. Whereas their strategies will be designed around the investor's risk-return tradeoff: some investors prefer to maximize expected returns by investing in risky assets, others will prefer to minimize risk, but most will select a strategy somewhere in between. The reality is that

collective investment schemes are established for their ability to perform several functions.

1.2. Problem Statement

A collective investment scheme is a way of investing money alongside other investors in order to benefit from the inherent advantages of working as part of a group. This enable small time investors to hire a professional investment manager, which theoretically offers the prospects of better returns and/or risk management; benefit from economies of scale; and diversify more than would be feasible for most individual small investors(Bogle, JC, 1999). Theoretically, diversification reduces risk.

In a recent study of Society for International Development, Kisumu ranks among Kenya's worst regions in terms of socio-economic outcomes with 48.2 at the Human Poverty Index and 0.490 at the Human Development Index (UN-Habitat, 2003). Only 4% of Kisumu population is employed in the formal sector (wage) and 20% in the informal sector. Forty four per cent (44%) are employed without pay. However, Kisumu provides jobs and business opportunities, colleges and training institutions.

Collective investment schemes encourages savings and capital formation as the benefits, top of which is the opportunity to invest small amounts over time with the assurance of reaping maximum yield, is a good incentive to galvanise a large number of the residence of Kisumu City to save and invest (CMA, 2011).

However, retail investors are faced with various factors that determine their choices to invest their monies in to the schemes. These could be; Level of income, distrust or hesitation on collective investment schemes, inability to execute investment strategies consistently and, the inability to react quickly and flexibly to investment opportunities presented by investment schemes probably in the event of in sufficiency of information(Bogle, JC, 1999).

There is no study that has been conducted on determinants of demand for collective investment schemes in Kisumu City. This study was therefore, meant to open up for other

researchers to add on to this topic and analyze it to help investors understand it and make informed choices when looking for investment opportunities.

1.2.1 Research Question

The researcher was trying to answer the following questions;

- What are the sources of investment information in Kisumu City?
- Are collective investment demanded in Kisumu City?
- What determines the demand of collective investment schemes in Kisumu City?

1.3. Research Objective

The objective was mainly to identify the determinants of demand for collective investment schemes in Kisumu City.

1.4. Value of the Study

The findings of the study are useful to:

To the investors, it is an eye opener to the investment opportunities and the advantages of diversification. Also it is beneficial in that they will realize the advantages of professional management in investment as provided for by the Mutual funds.

To the regulators, it outlines the gaps that need to be taken into account and it forms the basis of further analysis of the schemes and their use in the advancement of financial institution and capital mobilization.

To the academicians, it is the onset of understanding of investor preference and behavior in Kisumu, and provides avenues for further research in the field.

The researcher acknowledges that this survey has several limitations. First, the study was based on a survey questionnaire and interview sessions that was administered among Saccos and investment companies. The result of the survey and the interview are first-hand information and data that was validated and analyzed using the review of related literature. The literature is however, second-hand or secondary data where previous scholars may confirm or hold different views on the findings of the study. Also, Sample size is limited to 50 organizations in Kisumu City. The sample size may not adequately represent the predominant investment features of Kisumu City. The study may not be comprehensive too. With only three months to complete from proposal to data collection

to analysis, this has limited the scope of the study. It means that the study focused on just a few determinants. However, demand for the funds in Kisumu is not limited to those determinants in the main body. Information in this study on the determinants of demand for collective investment schemes are believe also to have potential for further analysis, the researcher therefore, suggests that more work needs to be done to research this determinants and more others not mentioned here.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The theory of investment was explored by economists such as Keynes (Keynes, 1936) and Hayek (1941). They focused on the employment of capital and investment from the firms' point of view. One of the earliest investment theories came from Irving Fisher, in a book entitled "Nature of Capital and Income" (Fisher, 1906) and his other work "Theory of Interest" (Fisher, 1930). His theory, though simple and open to a number of assumptions, developed a basic investment frontier that indicates an optimum return for investment over a certain period of time. It forms the basis for modern investment models.

Most of the time an individual investor is free to buy and sell these financial securities and may be holding a portfolio consisting of a number of various types of securities. Goetzman (1997) suggests that one question should be answered before a decision on what portfolio to hold is determined. This is what rate of return one demand to hold a risky security in a portfolio. It is important to note that to save and to create wealth are the main motivation for investors and since there is a trade-off between these two motivations, an investor needs to assess the inherent risk of not losing against expected return of the investment among other considerations.

2.1 Sources of information for investment

The existing "Behavioral Finance" studies are very few and very little information is available about investor perceptions, preferences, attitudes and behavior. All efforts in this direction are fragmented. Ippolito (Ippolito, 1992) says that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

The UN-Habitat observed that the urban community has largely felt detached from the main frame of development activities in the City, admittedly as a result of limited information flow among other reasons (UN-Habitat, 2003).

A survey was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other savings instruments. This was a unique and comprehensive study of Indian Investors, for, data was collected from 3,00,000 geographically dispersed rural and urban households in India. Some of the relevant findings of the study were: Households preference for instruments match their risk perception; Bank Deposit had an appeal across all income class; 43% of the non-investor households equivalent to around 60 million households (estimated) apparently lack awareness about stock markets; and, compared with low income groups, the higher income groups have higher share of investments in Mutual Funds (MFs) signifying that MFs have still not become truly the investment vehicle for small investors probably because of lack of sufficient information (SEBI – NCAER 2000).

Madhusudhan V. Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance and that Newspapers and Magazines are the first source of information through which investors get to know about collective investment schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

In Kenya, capital and equity market has continued to deepen and has posted attractive returns over the last couple of years. In 2005, the NSE index was up 34%, while in 2006 the index was up to 37%. The NSE index crossed the 5,000 point in Oct 2006, previous cross over was on 7 March 1994, over 12 years ago. In 2006, there were three (3) new IPOs (KenGen, ScanGroup and Eveready) and I public offer of shares (Mumias Sugar). During the period 2003 to 2006, market capitalization of the NSE increased from Kshs100 billion to the Kshs. 800 billion, an 8 fold increase in 3 years. The Central Depository & Settlement Corporation Limited (CDSC) accounts increased from 78,300 accounts in December 2005 to 324,700 accounts as at end of June 2006. Dominic Kiarie,

General Manager, British-American Asset Managers Ltd Nairobi suggested that Kenya's securities markets had come of age and are increasingly becoming an integral part of savings for many households. He observed that activity on the NSE were expected to be vibrant due to increased investor confidence and education, stable macro-economic conditions, positive outlook on corporate earnings and new listings(Dominic Kiarie, 2006).

2.2 Demand for Collective investment schemes

There are two main routes to investing in Kenya's securities markets. Either direct- by purchasing securities directly through stock brokers and other broker dealers (through a CDSC Account) or Indirect- through investing in a collective investment fund (such as a unit trust fund) which in turn invests in selected securities. Indirect investments, through collective investment schemes, confer a strong and compelling case to invest in Kenya's equity and bond markets. (Dominic Kiarie, 2006).

Churchill Investments, an independent Financial Advisers who specializes in collective investments says they believed most people needed to hold the bulk of their investments in collective investments. The prime reason is simple: collectives reduce risk. They do this because most collective funds hold upwards of 50 or 100 different investments, and only if one was very rich he could afford to hold that many individually. So they believed that the annual management cost of a collective investment should be viewed as a type of insurance premium. If one could not buy buildings insurance against the risks of fire and flood, he would probably prefer to own 1/100th of his own home and 1/100th of 99 others rather than own your entire home. Likewise, collective investments reduce the risk of total disaster to minimal levels. (Churchill, 2012)

The little savings by individuals from across the length and breadth of the country, when pooled together becomes a huge chunk of investible funds that can be channelled into the productive sectors of the economy continues. The benefits that can be derived from collective investment schemes are in two folds – to individuals and to the economy in general (Obioma, 2011)

Lydia Karingithi suggests that there is definitely no contention that these benefits, if properly harnessed could be the needed catalyst that can quicken the pace of development of a country. The need to act in this direction has become more germane now than at any other point in the nation's stride towards development. Several reasons to compel action in this direction abound (Karingithi, 2003).

What is required is to harness these benefits through structuring investment schemes that provide irresistible incentives like high returns on investment, ease in savings, liquidity, etc to encourage capital formation through savings across the length and breadth of the Kisumu City.

Brazil, one of the BRIC (Brazil, Russia, India and China) countries is reckoned to be one country in the world that has successfully harnessed collective investment schemes to oil the wheel of its economic growth. Kenneth Rapoza, of Dow Jones Newswires 2007 writing about the collective investment phenomenon in Brazil suggests that investments in Brazil had rewarded those with a solid investment strategy, though, he suggests, it has caught others flat-footed when it had gone through its periodic swoons. Collective investment schemes for Brazil thus remain the preferred methodology to invest in this country (Rapoza, 2007)

2.3 Determinants of demand for collective investment schemes

Potentially superior returns: Unit trusts provide potentially superior returns to fixed deposits over the longer term, providing investors with the opportunity to build real wealth (Zorro, 2010). When you choose a collective investment scheme you are reducing your risk and probably increasing your chances of making money. The fact that the money is spread out over a lot of investments increases the chances that there will be profits. If you just invest in one company then the share value could plummet and you will be left with nothing; with a collective scheme you have a finger in many pies (Kafui, 2011).

Collective investment is like little drops of water that forms a mighty ocean. It allows for synergistic pooling and investment of money whereby the benefits accruing to individuals

are usually greater than what the individuals would have benefited if they had invested individually. Also, through pooling of funds and investing as a group, the inherent risks are equally shared among participants. This added to the fact that the fund is managed by a fund manager who must have garnered expertise through training and experience, ensures that the investment risk is reduced to the barest minimum (Dominic Kiarie, 2006)

Easy and affordable investment: unit trusts are a convenient and low-cost way of investing in financial markets. They enable investors to invest in a wide variety of diversified portfolios of shares, bonds and other financial instruments they would not necessarily be able to afford as individuals (Zorro, 2010). Investor can share in the rewards of the stock exchange without the risks of direct investment. Unit trusts offer investors the choice of switching their portfolios when their needs and risk profile changes and the choice of increasing, stopping or decreasing stop orders without penalties (Kafui, 2011)

Kogi Wambui in a research work of 2003 (Kogi, 2003) suggests that collective investment scheme is one of the ingenious financial intermediation process developed to encourage savings and investment. The scheme is simply a synergistic pooling and investment of savings whereby the benefits accruing to individuals are usually greater than what they would have benefited if they had invested individually (Obioma, 2011). Elton and Gruber also agree that collective investment schemes provide reasonable alternative for retail investors (Elton and Gruber 1995). Thus collective investment scheme is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Low transaction cost: Pooling enables investors to reduce transactional costs involved in buying and selling of securities and gives investors the ability to negotiate for better returns than they would get if investing individually (Elton et al 1995). Unit trusts are designed to give investors good value for money. The pooling of money increases the purchasing through paying of lower dealing and administration costs which is favorably lower compared to when an investor invests directly in a selection of investments.

The pooling of investments also enables the fund manager to buy shares, money market instruments such as treasury bills, bonds and other investments which would be beyond the reach of the average investors.

The collective investment industry is strictly regulated by the Capital Markets Authority's Collective Investment Scheme (CIS) Regulations, 2001. The regulations allow the investor to enjoy total transparency of fees, charges and investment performance (CMA, 2011). There is a reduction in dealing costs for the investors in the fund because the costs are worked out on the number of transactions and the size of transactions. These costs are spread out amongst the fund's investors and not one investor. There are usually fewer dealer costs when you invest as part of a group; the burden of this is spread over more people and investments. (Kafui, 2011)

Mutual funds are able to take advantage of their buying and selling size and thereby reducing transaction costs for investors. When an investor buys a mutual fund, he is able to diversify without the numerous commission charges. Imagine if one had to buy the 10-20 stocks needed for diversification. The commission charges alone would eat up a good chunk of their savings. Add to this the fact that they would have to pay more transaction fees every time they wanted to modify their portfolio.-as it is visible, the cost begins to add up. Mutual funds are able to make transactions on a much larger scale and cheaper (Zorro, 2010)

Little problem with liquidity: There is ease in selling and buying the units compared with investing directly in shares of companies where prices and opportunities to transact depend on the supply and demand at that time (CMA, 2011). It is required of the fund managers to buy back units on demand of the unit holders and thus providing a high liquidity to its investors. This high liquidity of the collective investment scheme is done through redemptions at a value known as Net Asset Value per share (Kafui, 2011).

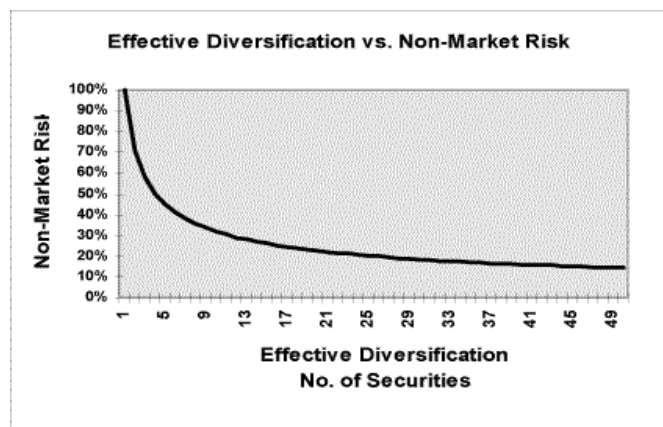
One of the difficulties of emerging stock markets such as Nairobi Security Exchange (NSE) is the relative length of time it takes for an investor on the capital market to sell his/her shares for cash. This problem which relates to liquidity is overcome by investing in mutual fund in view of the instant liquidity it offers. Liquidity speaks to the ease with which one can buy or sell shares at a competitive price. An investor can also sell mutual

fund at any time. Both the liquidity and small denominations of mutual funds provide mutual funds investors the ability to make periodic investments through monthly purchase plans (Zorro, 2010).

Diversification of risks: Investment processes involve two broad tasks as indicated by Bodie, et al. (Bodie, et al 1999). One task is security and market analysis. This is where an assessment of risk-return attributes of the entire investment happens. The second task is the formation of an optimal portfolio of assets. This is actually referred to as portfolio theory and it deals with the construction of a collective investment portfolio. Harry Markowitz (1952) in his work 'Portfolio Selection' says that it may not be enough to look at risk-return analysis of a single asset. He suggests that by investing in more than one security, an investor reaps the benefit of diversification- a major one being reduction of riskiness of the portfolio. To eliminate firm or security risk, the number of individual stocks in a portfolio should be increased. This results in much lower effect on a portfolio if one out of say twenty(20) stocks underperform than one alone or one out of two(2). Figure 2.1 demonstrate the benefits of diversification.

Figure 2-1

Reduction of Risk Diversification



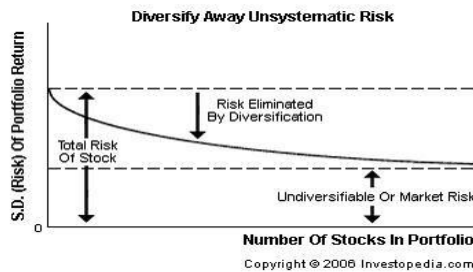
The graph shows that the number of stocks held does reduce risk however this reduction becomes negligible once the portfolio reaches 25 or 30 securities, spread across several sectors.

Collective investment schemes provide several advantages as indicated in earlier section including diversification and hence reduction of risks. However, collective investment schemes cannot abolish risk; that is to say, one is still prone to risk irrespective of the type asset chosen for investment. , In that regard, if technology funds are chosen the risk level is still high - just a lot less than the risk involved in owning one or two tech shares.

Nobel Prize winner William F. (Sharpe, 1972) suggested that market risk is not diversifiable as in the figure 2.2 below.

Figure 2-2

Diversifiable and Non-diversifiable risks



Expertise in Professional Management

Unit Trusts are managed by highly qualified investment managers and investment specialists whose full-time job is to make investment decisions. These professionals manage the fund in a structured manner as opposed to the individual investor who may invest in a random fashion. Investment decisions made by fund managers are based on extensive research, and they continuously monitor the portfolio based on researched information (CMA, 2011).

Few people have the time, skills or experience to actively manage their investments and research the best way of making money. By investing in the unit trusts, experts experienced in investments are managing investors' money on a daily basis and ensuring their peace of mind.

Most often, these schemes are managed by professionals with the requisite education and experience in the operations of the capital market and can easily take informed

investment decision for unit holders. This professional fund manager's role saves the investor the hustle of selecting and managing his own portfolio so that he conveniently concentrates on his job.(Sophia Kafui, 2011).

The investors purchase funds because they do not have the time or the expertise to manage their own portfolio. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments. These managers closely monitor each investment made with a view to making rational and timely decisions so as to enhance the performance of each of the funds under their management(Zorro, 2010).

Capital Mobilization: Goetzman (Goetzman, 1997) states that there is evidence that investor psychology affect investment scheme selection and switching. De Bundt and Thaler while investigating the possible psychological basis for investor behavior, argue that mean reversion in stock prices is an evidence of investor over reaction where investors over emphasize recent firm performance in forming future expectations (De Bundt and Thaler, 1985). In India, one of the success stories of collective investment schemes had an earliest attempt in 1964 when a survey of households was undertaken to understand the attitude towards and motivation for saving of individuals. Another NCAER study in 1996 analyzed the structure of the capital market and presented the views and attitudes of individual shareholders.

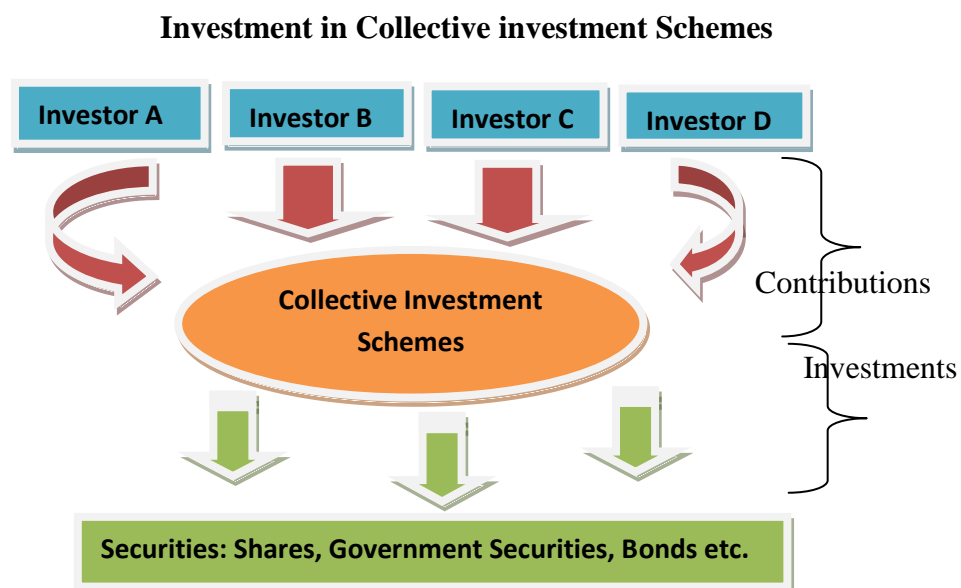
Luckily, collective investment schemes provide the means to bridge the laxity in savings and investment by the citizens and the need for funds by the government and industries. Collective investment encourages wide-spread savings and mobilization of funds among the populace because it offers incentives and opportunity for them to save and invest. Moreover, the scheme in many ways promotes wealth redistribution and poverty reduction as the trickles of funds so polled through collective efforts could be channelled to the productive sector of the economy to enhance their productive capacities giving room to more employment generation and healthier economy (Obioma, 2011).

Consequently society has become polarised into two extremes of those in need of money for productive activities, (the deficit unit) and those able to save part of their incomes,

(the surplus unit). The financial system evolved over time to provide the intermediation processes needed to channel the money in the form of investible funds from the surplus unit, to the deficit unit where the funds are needed for productive activities. However, the demand for funds from the deficit sector is always insatiable; thereby posing a continual challenge to every economic setting both at the micro and macro levels (Karingithi, 2003).

Incidentally, this demand for capital can only be met by those individuals or institutions whose incomes from their productive activities surpass their consumption. That is, those able to make some savings. Setting aside part of one's income or the process of building up funds for investment purposes was what was referred to as capital formation (Mwangi, 2003). Economies with higher productive capacities do not always have a higher capacity of capital formation due to expectedly higher income. This is because income may be frittered away through unbridled consumption. Experts in the financial system are therefore, constantly tasked on means to encourage people to consume less and save more in order to ensure higher capital formation. Packaging investment products with attractive incentives that would encourage savings and capital formation has become one sure way of mitigating this challenge. One of such ingenious platforms that have been thus developed is collective investment schemes (Dominic Kiarie, 2006)

Figure 2-3



Flexible investment options: unit trusts provide investors with the following investment options:

Lump sum investments: A lump sum investment can be made at any time during the life of the investment, resulting in the entire investment benefiting from the growth and income potential of the chosen unit trust (Kafui, 2011).

Following the opening of an account, one is able to invest any additional amounts to top up his account.

Monthly Investment Plan: A regular monthly investment can be made into investor's account resulting in an easier way of building capital. A monthly investment has the benefit of shilling cost averaging, where additional investments can be made during times of market weakness. A Monthly Investment Plan would also allow one to invest in a long term savings plan to meet investor's desired financial goals.

Cash Withdrawal Facility: The Cash Withdrawal Facility allows an investor to take regular withdrawals from his unit trusts. The facility is useful if one is investing for a specific event in the near future where he will require a regular flow of cash. The cash withdrawal facility is flexible, simple and tax-efficient way of taking withdrawals from your investments.

Liquidity: unit trusts are flexible and easily accessible (Kafui, 2011).

Tax efficient: Unit trusts are highly tax efficient investment. A unit trust fund does not pay tax on its income, either from dividends or interest. In addition, unit trusts do not pay tax on capital gains. (CMA, 2011)

Safe and Transparent: Unit trusts are strictly controlled the Capital Markets Authority under the Capital Markets (Collective Investment Schemes) Regulations, 2001. The regulations impose duties and responsibilities on the key functionaries of the fund including fund manager, custodian and trustee. The fees and charges are transparent and are published in the Information Memorandum. Information on the investment performance is provided in a report audited by external auditors. Each unit trust has a Trust Deed, the legal document establishing the trust, and an Information Memorandum, of which a copy are available by email (CMA, 2011).

2.4 Conclusion

From the above review it can be inferred that Mutual Fund as an investment vehicle is capturing the attention of various segments of the society, like academicians, industrialists, financial intermediaries, investors and regulators for varied reasons and deserves an in-depth study. In this paper, an attempt was made by the author, mainly to identify the determinants of demand for collective investment schemes in Kisumu City.

A lot of literature as shown above was mainly about the benefits of Collective investment schemes as an investment alternative to small scale investors. However, hardly any literature examined the factors that determine demand for the schemes specifically in Kisumu City. This occasioned the need for this study.

This study makes several contributions to the existing literature on the assessment of the determinants of demand for collective Investment schemes. Firstly, whilst studies on the factors that determine demand by Lydia (Karingithi, 2003) for the schemes looked at mainly the Kenya as a whole, this study departs from earlier studies by looking at Kisumu City specifically. Secondly, this study was seeking to provide fresh evidence in the relationship between benefits of the schemes and awareness of the Kisumu City residence and the demand for the schemes.

Thus, the above literary and scholarly works were relevant to the present study and guided the research. The analyses supporting the said studies are of material relevance herein so far as the discussion hereafter is concerned.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

The purpose of this chapter was to describe the research methodology and to expand on the issues anticipated in the process of data collection. It was important to make sure that the data collected was relevant and comprehensive enough to give substance to the hypothesis.

3.1 Research Design

The research design adopted in this study was descriptive research design. A descriptive research design is the one which is a description of the state of affairs as it exists at present. It includes survey and fact finding enquiries of different kinds. It is where the researcher has no control over the variables (Alavi et al 1992). The researcher used this research design to find out the respondents attitude and opinion about what determinants of demand for collective investment schemes are in Kisumu city.

3.2 Population of the Study

The population referred to the entire group or unit of interest in the research study. It is the size of the group that the completed research findings were generated toward. In this research, the population of study was all 2,202 Sacco and all 456 investment companies registered and operating in Kisumu City. The numbers included those registered elsewhere but operating in Kisumu City (Business Directory, 2012).

3.3 Sample of the Study

To obtain the data on the areas identified, an appropriate sampling was established from the population that is made up of Sacco and investment companies in Kisumu City. The respondents were obtained by a cluster sampling technique in this study. The first cluster comprised of all Sacco operating in Kisumu and the second was all investment

companies operating in Kisumu. Twenty five (25) respondents were then obtained from each cluster. This made a total of 50 respondents in this survey.

3.4 Data Collection

A questionnaire was used to capture primary data. It was developed to capture all the major areas that were first mentioned in earlier chapters of this research with specific reference to research questions (see appendix a). The questionnaires was distributed physically by a research assistant to the respondents, who were investment managers, public relationship officer, investment officer or one person from each participating organizations with knowledge of investment and investment activities of their respective organizations. They were the source of primary data since they have the knowledge of the selected organizations' investment decisions.

3.5 Data Analysis

Presentation of data was done by with the help of tables and graphs. Data analysis was done by capturing all the responses on a MS Excel spreadsheet and converting it into statistical data. The researcher used analysis of variance to analyze the data. Chi-square model was used to test the null hypothesis. Chi-square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis (Robert, and Douglas, Marshal,1996).The objectives of collective investment schemes are perceived to be the motivation for the investors to invest in mutual funds and in the event that actual results indicates otherwise, then the researcher wanted to know about the "goodness to fit" between the observed and expected. The researcher had to determine whether the deviations were result of chance, or due to other factors. Also the researcher had to decide on how much deviation could occur before it could be concluded that something other than chance was at work, causing the observed to differ from the expected. The chi-square tested the **null hypothesis**, which states that there is no significant difference between the expected and observed result (Robert, et al.1996).

Due to the nature of each question, the statistical outcomes were interpreted individually per question. It should however be noted that the final sample remained the same.

Basic Computational model was therefore, as below.

$$\begin{aligned} \chi^2 &= \sum \frac{(\text{Observed frequencies} - \text{Expected frequencies})^2}{\text{Expected frequencies}} \\ &= \sum \frac{(F_o - F_e)^2}{F_e} \end{aligned}$$

To test the alternative hypothesis, the researcher used the **correlation coefficient** to measure the strength of the linear relationship between variables (Aczel, 1999).

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

The coefficient of multiple determinations R^2 is a measure that gives the proportion of the total variation in the dependent variable Y that is explained by the independent variables in the multiple regression model or ANOVA model.

$$Y = b_0 + b_1X_1 + b_2X_2 + \dots + b_kX_k$$

Conclusion

The research process was done scientifically and enough assurance were gathered to verify a believable set of data that could be assist in reaching viable conclusion with regard to the problem statement. Although an important part of the survey, the research part only assists in the ultimate outcome of the problem statement.

CHAPTER 4

FINDINGS AND DISCUSSIONS

4.1 Introduction

Data collection for this research was carried out on 17th September 2012 to 21st September 2012. A total of 4 enumerators were selected from University of Nairobi School of Business, taken through a rigorous training process on the data collection tools. The tool was then tested at Ogra Foundation Sacco Society Limited and Havenine Investment Group staff before being commissioned for use. The research targeted 50 active participants in CIS within Kisumu city. From the analysis the research found out that out of the total respondents of 50 people, 25 of them who constitute a total 50% are of Sacco's while another 25 respondents which also constitutes a total of 50% were investment companies. See table I. for details

4.2 Organizations details

Section A

Table i. Organizational details

	Frequency	Percent	Valid Percent	Cumulative Percent
Sacco	25	50.0	50.0	50.0
Valid Investment company	25	50.0	50.0	100.0
Total	50	100.0	100.0	

Table i. A total of 25 respondents (50%) invested in a Sacco while the remaining 25 respondents (50%) in Kisumu city engaged in investment companies

1(a). The second question asked to the participants was geared towards capturing how many years that their organizations have operated in Kisumu city. The results of the question have been outlined in table ii below.

Table ii. Number of years the organization has operated in Kisumu

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0-2 years	4	8.0	8.0	8.0
3-5 years	6	12.0	12.0	20.0
5-10 years	15	30.0	30.0	50.0
10 and above years	25	50.0	50.0	100.0
Total	50	100.0	100.0	

Table ii. This question got a 100% response, out of which 25 respondents who constituted a total of 50% said their companies had operated in Kisumu city for 10 years and above. 12 companies were found to have operated for between 5-10 years accumulating a total of 30% in the analysis table, an additional 6 (12%) companies were found to have been in operation for between 3-5 years while the last category of 0-2 years had a total of 4 companies which constituted a total 8%.

The second question under part A sort to categorize the organizational income bracket ranging from 10,000-30,000 and above as outlined in the table iii below.

Table iii. b. The respondent's organizational income from activities other than income

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Up to sh.10,000	3	6.0	6.0	6.0
sh.10,001 to 15,000	2	4.0	4.0	10.0
sh.15,001-30,000	7	14.0	14.0	24.0
sh. 30,000 and above	37	74.0	74.0	98.0
the Sacco is still new	1	2.0	2.0	100.0
Total	50	100.0	100.0	

From table iii, the analysis found that 37 (4%) organizations have an income of Sh.30, 000 and above, 7 organizations (14%) have income of sh.15, 000-30,000. 3 (6%) organizations have an income of up to 10,000 while 1 organization which was found to be a Sacco had an income that was below the answer margin with the respondent stating that the Sacco is still small.

SECTION B

4.3 INVESTMENT KNOWLEDGE

(a) Question 1 in section B was meant to capture investment knowledge of the sampled respondents in the survey, this question attracted a responses from all the 50 participants. See table iv for details.

Table iv. If Participants are involved in any type of business

	Frequency	Percent	Cumulative Percent
YES	39	78.0	78.0
NO	11	22.0	100.0
Total	50	100.0	

The analysis found out that a total of 78% of the participants are involved in other types of businesses while 22% are not involved in any type of business.

Question (b) section B sort to explain further the monthly returns for the 78% of respondents who we found to be involved in other types of business. This question was answered by all the 39 participants found to have other business as explained in table iii above. See table v below.

Table v. For those who said yes, what is the average monthly return for the business?

	Frequency	Percent	Cumulative Percent
	1	2.6	2.6
Up to Sh. 20, 000	5	12.8	15.4
Sh. 20,001-50,000	8	20.5	35.9
Sh.50,001-100,000	3	7.7	43.6
Sh. 100,001 and above	22	56.4	100.0
Total	39	100.0	

The analysis on table v found out that 56.4% (22 participants) have a monthly income return of up to Sh. 100,001 and above. 7.7% (3 participants) have a monthly return of up to Sh.50, 001-100,000. Further analysis on the same table shows that 20.5% (8 participants) have a monthly return of up to Sh. 20,001-50,000. A total of 7.7% (5 participants) have a monthly return of Up to Sh. 20, 000 while one participant didn't respond to the question.

c) The survey also found out that the 22% (11particioants) who said they do not involve themselves in any other business in question (a); they did not have any major reason for not doing so. The other reasons given for not involving are i.e. lack of capital for other business ii. Respondents are satisfied in what they done.

d). Question D section 2 sort to find out the factors that the respondent prefer most while investing funds, this question was asked to all the participants however only 42 participants in the survey did respond to this particular question the ratings to the question were categorized in the following way: 1-highly, 2-most, 3-average,4-lowely considered. See table vi below for details

Table vi

Factors Preferred While Investing Funds					
	Liquidity	Low risk	High returns	Others (specify)	Total per rating
Highly preferred	23	14	34	0	71
Most	10	13	3	0	26
Average	4	7	5	0	16
Lowly Considered	5	9	3	0	17
Blank	8	7	5	49	69
TOTAL OF RESPONSES	42	43	45	0	130
Percentages for preference (Out of 130)	32%	33%	35%	0%	100%
Percentages of rate of highly preferred	32%	20%	48%	0%	100%

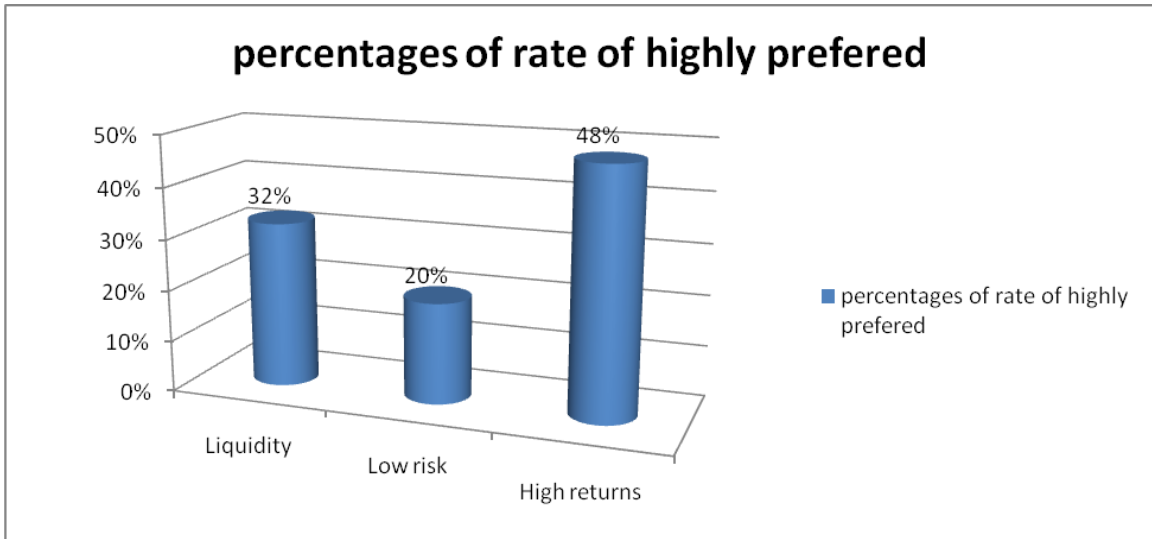
Analysis: from table vi above, the survey question had a total of 130 responses, high returns was considered the most preferred factor when the participants invest funds in Kisumu city, a total of 34 respondents ranked high returns as highly preferred, 3 respondents ranked high returns as most preferred, 5 respondents ranked high returns as Average, 3 respondents also ranked the high returns as lowly considered while 5 respondents did not attempt the question.

The second most preferred factor to investors while investing within Kisumu city is low risk, 14 respondents ranked low risk as highly preferred, 13 respondents ranked it as most preferred, 7 respondents ranked low risk as average, and 9 respondents ranked low risk as lowly considered while a total of 7 respondents did not rank low risk at all. The third most preferred factor is liquidity, 23 respondents ranked liquidity as highly preferred, 10 respondents ranked liquidity as most preferred , 4 respondents ranked liquidity as averagely preferred, 5 respondents ranked liquidity as lowly preferred while 8 respondents did not rank liquidity.

Consequently the survey found out that high returns as a factor was the leading with a total of 35%, low risk came in the second place with 43%, Liquidity then came in third with 42%. One respondent however did not attempt the question at all.

The three most preferred factors have also been graphically analyzed below. Figure 4-1 for details.

Figure 4-



Analysis show that high returns gathered a total of 48% which was the highest factor that attracted the invested of funds, liquidity as a factor gathered a total of 32% coming in the second position after high returns, low risk as factor influencing investment of funds also gathered a total of 20%.

e) What kind of investments do you prefer most? (1-highly, 2-most, 3-average, 4-lowly considered)

Table vii.

PREFERRED TYPES OF INVESTMENTS							
	savings account	fixed Deposits	Shares /debentures	mutual funds	real estates	Others	Totals
Highly Preferred	2	18	13	17	12	0	62
Most	0	5	9	9	2	0	25
Average	1	5	6	5	4	0	21
Lowly Preferred	2	6	2	8	12	0	30
Missing	45	16	20	11	20	50	162
Total No. of Responses	5	34	30	39	30	0	138
Percentages for preference (Out of 138)	4%	25%	22%	28%	22%	0%	100%

From the table vii above this question had a total of 138 responses, the survey however found mutual funds to be the most preferred type of investment in Kisumu city, the statistics show that 17 respondents ranked mutual funds as highly preferred, 9 respondents ranked mutual funds as most preferred, 5 respondents ranked mutual funds as averagely preferred, 8 respondents ranked mutual funds as lowly preferred while 11 respondents did not rank the mutual funds.

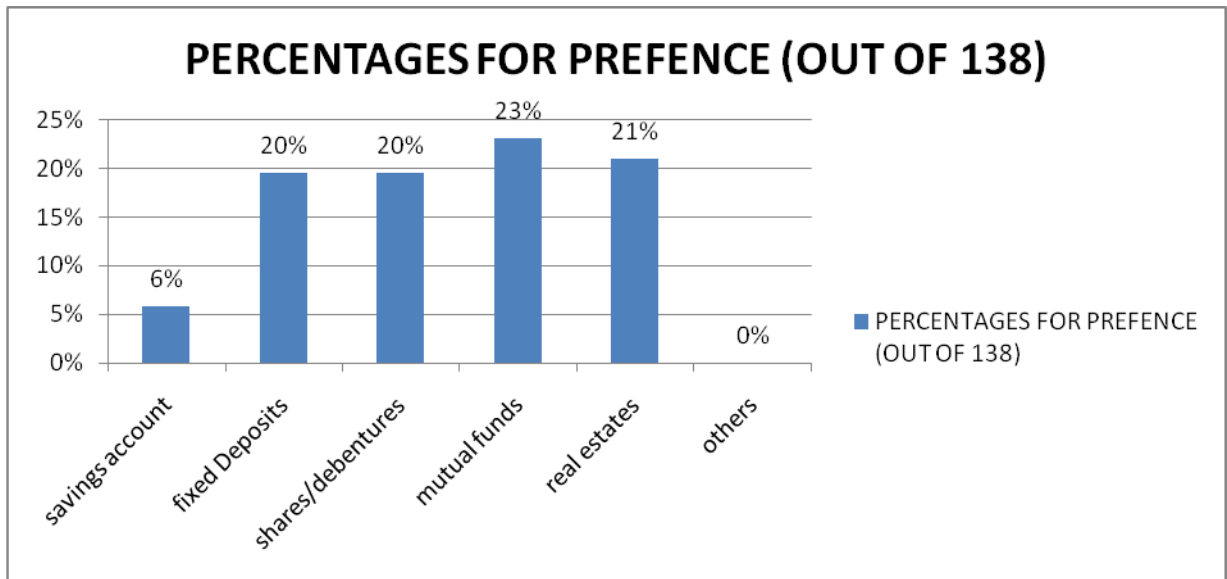
The second type of investment in Kisumu city is the fixed deposit which attracted a total of 34 responses, 18 respondents ranked the fixed deposits as highly preferred, 5 respondents ranked the mutual funds as most preferred, another 5 respondent also ranked fixed deposits as average, 6 respondents ranked the mutual funds as lowly preferred while 16 respondents did not rank the fixed deposits.

The third preferred type of investment is the shares and debentures which attracted total of 20 responses, further analysis show that 13 respondents ranked the shares and debentures as highly preferred, 9 respondents ranked it as most, 6 respondents ranked it as average, 2 respondents ranked it lowly preferred while 16 respondents did not rank the shares and debentures.

The fourth preferred type of investment in Kisumu city is real estate which had a total of 12 responses, 12 respondents ranked real estate as highly preferred, 2 respondents ranked the real estate as most preferred, 4 respondents ranked real estate as average, 12 respondents ranked the real estate as lowly preferred while a total of 20 respondents did not rank the real estate.

The fifth preferred type of investment in Kisumu city is savings account which attracted total of 5 responses, the survey established that only 2 people ranked savings account as highly preferred, 1 respondent ranked savings account as average, 2 respondents ranked the savings account as lowly preferred and a total of 45 respondents did not rank the savings account. The graph below gives graphical summary of the preferences in percentage.

Figure 4.2 Percentage for preference



From graph ii above we find that 23% of the respondents prefer mutual funds, 21% prefer real estate, 20% of the participants were found to prefer fixed deposits and shares/debentures. An additional 6% of the respondents however were found to prefer savings account as an investment scheme.

Question (f) under section B sort to find out the investment horizon of the sample population, the respondents were then to rank in terms of (1-highly,2-most,3-average, 4-lowly considered) see table viii for details.

Table viii Organizational investment horizon

organizational investment horizon						
	Up to 1 year	1-2 years	3-5 years	5 or more years	Others, please specify	Totals
Highly	19	2	7	29	0	57
Most	4	12	16	4	0	36
Average	6	12	10	6	0	34
Lowly preferred	8	7	3	5	0	23
Missing	13	17	14	6	49	99
Expected No. of Responses	50	50	50	50	49	249
Total No. of Responses	37	33	36	44	0	150
Percentages for preferences (Out of 150)	25%	22%	24%	29%	0%	100%

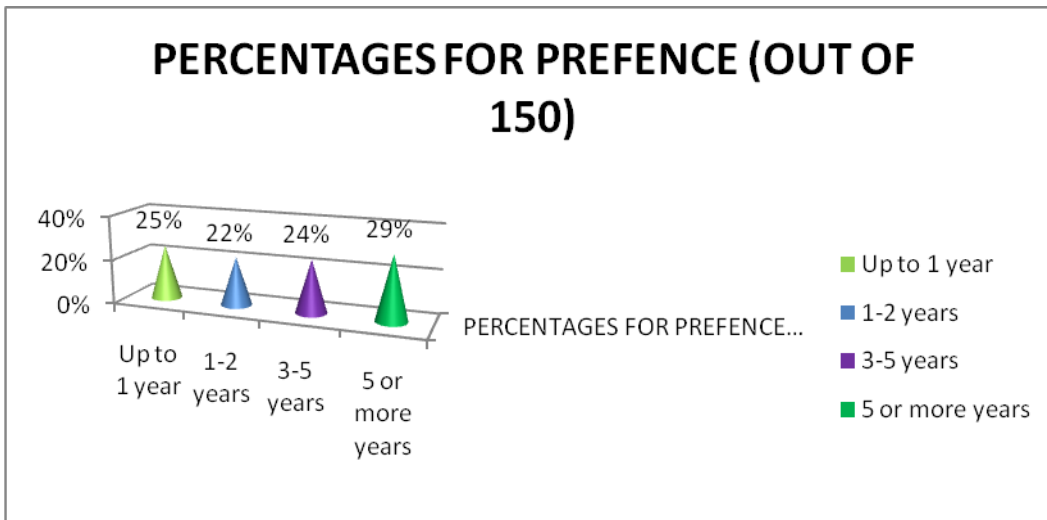
The analysis from table viii show that 44 respondents have an organization investment horizon of 5 or more years, on the rankings; 29 respondents ranked the category of 5 or more years as highly, 4 respondents ranked the category of 5 or more years as most, 6 respondents ranked the same category as average, 5 respondents ranked the same category as lowly preferred while 6 respondents did not rank the category of 5 or more years.

The second investment horizon category is up to 1 year which had a total of 37 responses, further analysis show that 19 respondents ranked the category of up to 1 year as highly, 4 respondents ranked the category as most, 6 respondents ranked the category as average, 8 respondents as lowly preferred while 13 respondents did not rank the category of up to 1 year.

The third placed category in investment horizon was between 3-5 years the category attracted a total of 36 responses of which when broken down; 7 respondents ranked the category as highly, 16 respondents ranked the category as most, 10 respondents ranked the category as average, 3 respondents ranked the category as lowly preferred, 14 respondents however do not rank the category.

The fourth placed category in investment horizon was between 1-2 years which had a total response of 33, further analysis show that 2 respondents ranked the category as highly, 12 respondents ranked the category as most, 12 additional respondents ranked the category as average, 7 respondents ranked the category as lowly preferred while 17 respondents did not rank the category. One respondent did not attempt the question leaving us with a total of 49 respondents in the analysis, the percentage of preference have been analyzed in the graph below.

Figure 4-3 **Percentage for preference**



From the graph, 5 or more years was the highest preferred category with a total of 29%, the second placed category was up to 1 year which had a total 25%, the third placed category was between 3-5 years which had a total of 24% and the last preferred category was between 1-2 years which had a total 22%.

4.4 KNOWLEDGE ABOUT COLLECTIVE INVESTMENT SCHEMES

Section C

Section 3 of the survey sort to find out how the respondents came to know about investments schemes depending on the method the respondents were to rank the effectiveness of the different methods. The ranking was on the following thresholds 1- most and 4 being least effective.

Table ix Knowledge about collective investment schemes

	Advertisement	Peer groups	Banks	Financial advisors	Others
most effective	15	2	17	35	0
Effective	14	9	15	4	0
less effective	3	7	7	4	0
least effective	8	20	2	3	0
Blanks	10	12	9	4	49
total responses	40	38	41	46	0

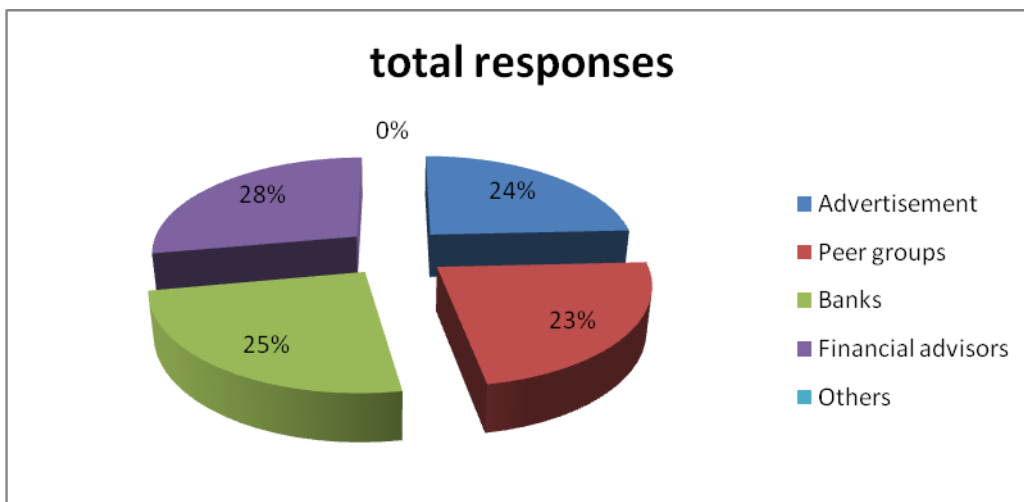
From the analysis of table ix, financial advisers were found to be the most effective in informing people on CIS attracting a total of 46 responses, 35 respondents ranked the financial advertisers as most effective, 4 respondents ranked the financial advisers as effective, another 4 respondents also ranked financial advisers as less effective, 3 respondents ranked the financial advisers as least effective while 4 respondents did not rank the financial advisories.

The second most effective means of informing the people on CIS was the Banks, 17 respondents ranked the banks as most effective, 15 respondents ranked the banks as effective, and 7 respondents ranked the banks as less effective while 9 people did not rank the banks. The third most effective means of informing the people of Kisumu on CIS was advertisement; a total of 15 respondents ranked the advertisement as most effective, 14 respondents ranked the advertisement as effective, 3 respondents ranked the

advertisement as less effective, 8 respondents ranked advertisement as least effective while 10 respondents did not rank the advertisement.

The fourth most effective means of informing the people of Kisumu city on CIS was the peer groups, 2 respondents ranked the peer groups as the most effective means, 9 respondents ranked the peer groups as effective, 7 respondents ranked the peer groups as less effective, 20 respondents ranked the peer groups as least effective while a total of 12 respondents did not rank the peer groups. One respondent however said that he/she got the knowledge from school. Thus the overall percentages gathered on the ranking have been summarized in the pie chart below.

Figure 4-4



From the pie chart above, financial advisors gathered the highest percentage of 28% in informing the people on CIS, Banks followed closely with 25%, Advertisements then came in third with a total of 24%, peer groups then followed closely with 23%. The survey thus concludes that even though there are diverse methods of informing people on CIS the methods have very little margins in terms of their preference to the respondents.

B) On the second part of section b, the survey sorts to find out how many of the respondents have ever invested in CIS, the respondents were to respond either with a YES or NO.

Table x **If they have ever invested money in CIS**

	Frequency	Percent	Valid Percent	Cumulative Percent
YES	36	72.0	72.0	72.0
NO	14	28.0	28.0	100.0
Total	50	100.0	100.0	

The analysis from table x shows that a total of 72% (36) respondents have invested in CIS, 28% (14 respondents) however were found never to have invested in CIS. This shows that the demand for CIS is quit high in Kisumu City.

C) The third part of section b sort to find out the where the investors find themselves in terms of the knowledge in CIS, the expected responses was either partially or totally ignorant of CIS. See table xi for details.

Table xi. **Where one find themselves as a CIS investor?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Missing	6	12.0	12.0	12.0
Totally Ignorant	1	2.0	2.0	14.0
Partial knowledge of CIS	43	86.0	86.0	100.0
Total	50	100.0	100.0	

The analysis from table xi show that 86% of the respondents have partial knowledge on CIS, 2% (1 respondent) is totally ignorant of CIS, while a total of 12% (6 respondents) did not respond to the question thus they are marked as missing in the analysis table.

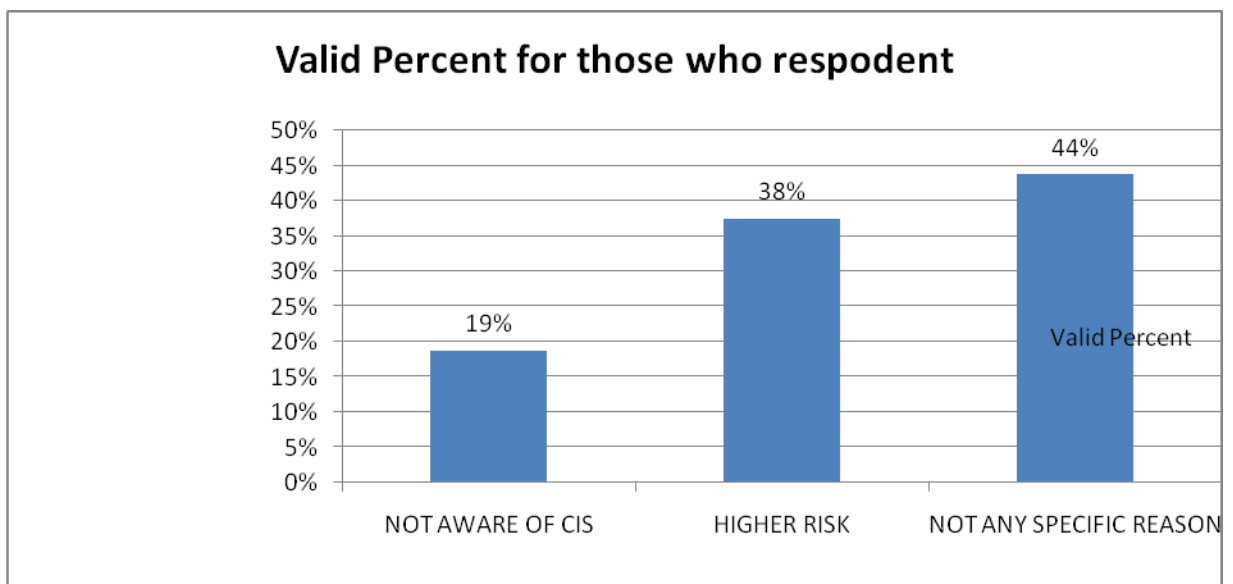
Question d of section C was directed to those who did not invest in CIS, the question sort to find out why they opted not to invest in CIS. See table for details

Table xii. If not invested in CIS then why

	Frequency	Percent	Valid Percent	Cumulative Percent
Missing	34	68.0	68.0	68.0
Not aware of CIS	3	6.0	6.0	66.0
Higher Risk	6	12.0	12.0	78.0
Not any specific Reason	7	14.0	14.0	92.0
Total	50	100.0	100.0	100.0

Analysis from the table xii above show that 68% did not respond to this question as they invest in CIS, 6% (3 respondents) were found not to invest in CIS as they are not aware of CIS, 12% (6 respondents) did not invest due to higher risk connected to investments while 14% (7 respondents) had no specific reason for not investing in CIS. The graph below gives a summary of only those who responded to the question of why they do not invest in CIS. See graph iv below for details

Figure 4-5.



From Graph iv above the analysis found out that 44% of those who do not invest in CIS do not have a specific reason for not doing so, 38% do not invest in CIS due to higher risks involved while 19% are not aware of CIS.

4.5 Investing in Collective Investment schemes (CIS)

Section D

Question (a) under section D meant to capture the number of regular and new investors in CIS, this question was attracted by 48 respondents with only 2 respondents not answering the question. See table ... for details.

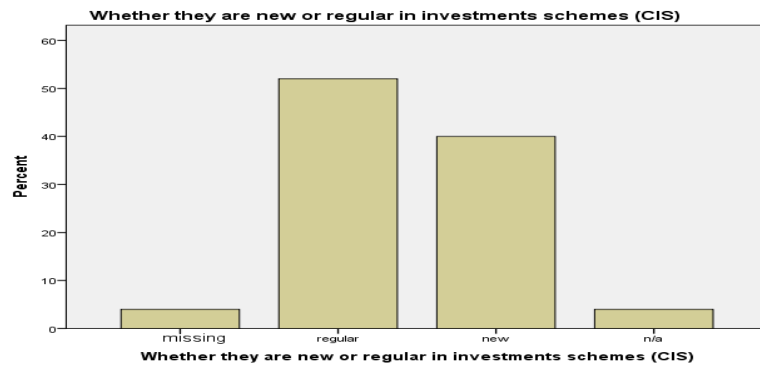
Table xiii. New or regular in investment schemes (CIS)

	Frequency	Valid Percent	Cumulative Percent
Missing	2	4.0	4.0
regular	26	52.0	56.0
New	20	40.0	96.0
n/a	2	4.0	100.0
Total	50	100.0	

Analysis from table xiii shows that 52% (26 respondents) are regular investors, 40% (20 respondents) are new investors. 4% (2 respondents) did not answer the question while another 4 % (respondents) answered with an N/A.

The graph below was prepared to show the graphical representation of the responses that were captured in question (a) above.

Figure 4-6



The analysis from the table shows that regular investors were the highest with a total of 52 followed by new investors with 40%, those missing from the system were 4% while the N/A also constituted a total of 4%.

Table xiv.

WHAT FEATURES OF CIS ARE THE MOST ALLURING								
FEATURES	MOST ATTRACTIVE	ATTRACTIVE	INDIFFERENT	LEAST ATTRACTIVE	TOTAL PER FEATURE	% out of 50 expected responses	MISSING	% out of 363 responses
Diversification	32	4	2	2	40	80%	10	11.02%
Potential superior returns	19	12	5	2	38	76%	12	10.47%
Easy and affordable investments	10	10	9	8	37	74%	13	10.19%
Low transaction cost	15	6	5	9	35	70%	15	9.64%
Expertise in professional management	21	5	4	5	35	70%	15	9.64%
Value for money	21	10	4	3	38	76%	12	10.47%
Flexible investment option	7	16	3	7	33	66%	17	9.09%
Liquidity	21	7	3	5	36	72%	14	9.92%
Tax efficiency	5	10	12	8	35	70%	15	9.64%
Safety and transparency	14	15	5	2	36	72%	14	9.92%
TOTALS PER RATING	165	95	52	51	363		137	100%

The survey found out that the question had a total of 363 total responses. Of which 40 respondents chose diversification as the most alluring factor, further analysis show that

32 respondents ranked diversification as most effective, 4 respondents ranked diversification as attractive, 2 respondents were found to be indifferent, 2 respondents ranked diversification as least effective while 10 respondents did not rank diversification.

Potential superior returns and Value for money came in second as the most alluring factors with each getting a total of 38 responses, taking one by one the analysis found out that 19 respondents ranked Potential superior returns as most attractive, 12 respondents ranked the category as attractive, 5 respondents were found to be indifferent, 2 respondents ranked the category as least effective.

On Value for money which also came in second with 38 responses had 21 respondents rank it as most attractive, 10 respondents ranked the category as attractive, 4 respondents were however found to be indifferent, 3 respondents ranked the category as least effective while 12 respondents did not rank the category.

The fourth most alluring factor in CIS is easy and affordable investments which attracted a total of 37 responses, further analysis show that 10 respondents ranked the category as most attractive, 10 respondents ranked the category as attractive, 9 respondents were however found to be indifferent, 8 respondents ranked the category as least effective while 13 respondents did not rank the category.

Safety and transparency and liquidity then followed closely as the fifth most alluring factors with a total of 36 respondents each, the analysis shows that 14 respondents ranked the category as most attractive, 15 respondents ranked the category as attractive, 5 respondents were however found to be indifferent, 2 respondents ranked the category as least attractive while 14 respondents did not rank the category.

A total of 21 respondent's ranked liquidity as most attractive, 7 respondents ranked the category as attractive, 3 respondents were however found to be indifferent, 5 respondents ranked the category as least attractive while a total of 14 respondents did not rank the category.

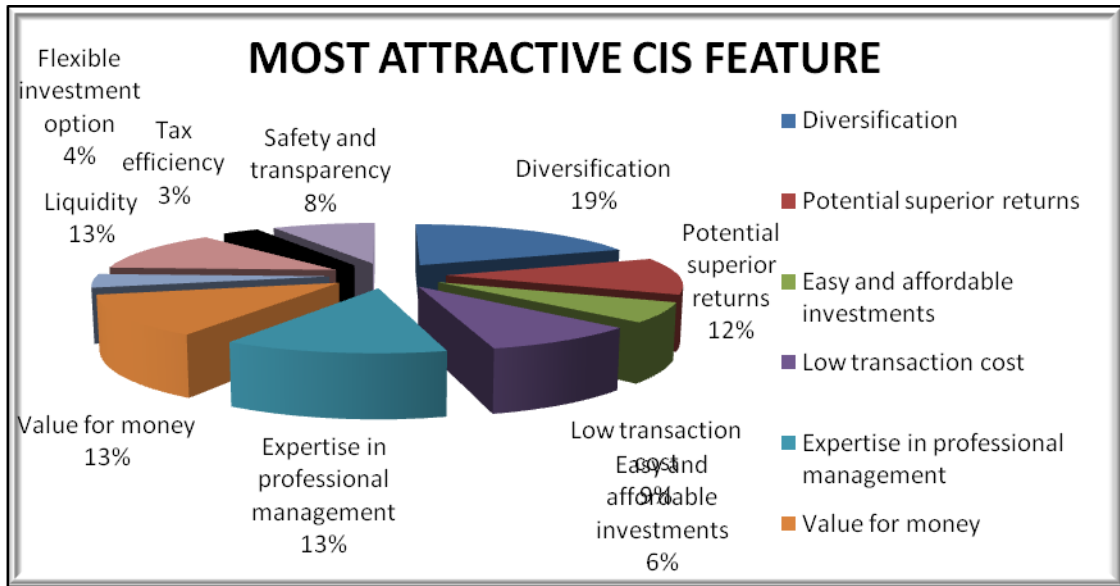
Lowest transaction costs, tax efficiency and Expertise in professional management were found to be the sixth most alluring factors in CIS with each attracting a total of 35 responses. Low transaction cost when broken down further had 15 respondents rank it as most attractive, 6 respondents ranked the category as attractive, 5 respondents were however found to be indifferent, 9 respondents ranked the category as least attractive while a total of 15 respondents did not rank the respondents.

Expertise in professional management had 21 respondents ranked the category as most attractive, 5 respondents ranked the category as attractive, 4 respondents were however found to be indifferent, 5 respondents ranked the category as least effective while a total of 15 respondents did not rank the category.

Tax efficiency had 5 respondents rank the category as most attractive, 10 respondents ranked the category as attractive, 12 were however found to be indifferent, 2 respondents ranked the category as least effective while a total of 15 respondents did not rank the category.

Flexibility investment options came in last as the most alluring factor in CIS, the analysis from the table show that 7 ranked the category as most attractive, 16 respondents ranked the category as attractive, 3 respondents were however found to be indifferent, 5 respondents ranked the category as least attractive while a total of 17 respondents did not rank the category. The pie chart below shows the percentage Summaries of the most alluring factors in CIS.

Figure 4-7



The pie chart ii above gives a summary of the most attractive features of CIS, the survey found diversification to be the most attractive feature in CIS with a 19%, liquidity, values for money and expertise in professional management all came in at the second position with all scoring a total of 13% each. Potential superior returns then followed closely with a 12%, low transaction cost then followed registering a 9%, safety and transparency then followed closely registering 8%, easy and affordable investments followed registering a 6%, flexible investment options then followed registering a 4% while tax efficiency was found to be the most unattractive feature of the CIS. Tax efficiency registered a total of 3%.

Question 3 of part D sort to find out the source of information while the respondents invested in CIS, see table xv for details.

Table xv Source of information while investing in collective schemes

	Frequency	Percent	Valid Percent	Cumulative Percent
Internet	5	10.0	19.2	19.2
Magazine	2	4.0	7.7	26.9
Newspaper	1	2.0	3.8	30.8
Valid Financial	16	32.0	61.5	92.3
Advisor	2	4.0	7.7	100.0
advertisement	2	4.0	7.7	100.0
Total	26	52.0	100.0	
Missing System	24	48.0		
Total	50	100.0		

Analysis from table xv above shows that 61% (16) respondents get their information on CIS from the financial investors, 19.2 (5 respondents) were found to have gotten their information of CIS from the internet, Magazines and advertisements had a total 7.7% each while newspapers only had a total of 3.8% in terms of providing information for the respondents on investing in CIS.

Question 4 under section D was captured the types of returns that the respondents of the survey preferred in terms of monthly, quarterly, semiannual or annual returns. See table xvi for details.

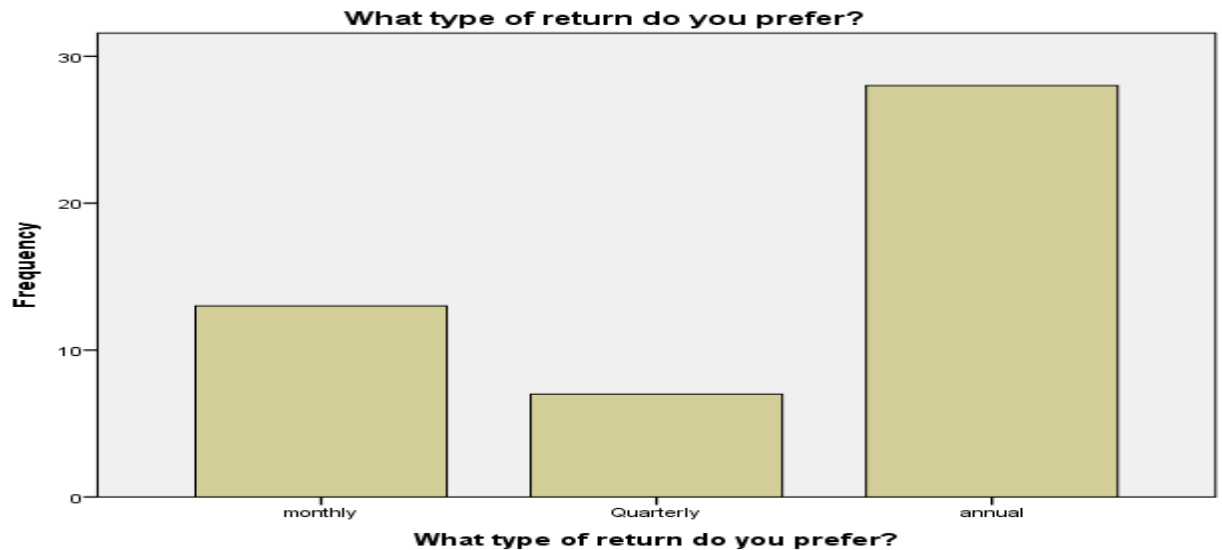
Table xvi

What type of return do you prefer

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Monthly	13	26.0	27.1	27.1
Valid Quarterly	7	14.0	14.6	41.7
Valid Annual	28	56.0	58.3	100.0
Total	48	96.0	100.0	
Missing System	2	4.0		
Total	50	100.0		

The analysis from the table show that 58.3% of the respondents (28) prefer annual returns, 27.1% (13 respondents) prefer monthly returns, 14.6% (7 respondents) prefer quarterly returns while 4% (2 respondents) did not answer the question. These percentages were then graphically represented as shown in Graph vi below.

Figure 4-8



From graph v above, most people preferred annual returns followed by monthly and the quarterly returns comes in third respectively.

Question 5 below sort to find out what modes of investments do the investors like most while investing in mutual funds, graph ... below gives a brief of the modes of investments preferred.

Table xvii When you invest in mutual funds which mode of investment will you prefer?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid One time investment	16	32.0	33.3	33.3
Valid Systematic Investment	32	64.0	66.7	100.0
Total	48	96.0	100.0	
Missing System	2	4.0		
Total	50	100.0		

From table xii above the analysis found out that 66.7% (32 respondents) preferred a systematic investment mode, 33.3% (16 respondents) preferred one time investment mode while 4% (2 respondents) did not answer the question.

The sixth question on of the survey asked the respondents how they would like to receive every year, this question was answered by a total of 48 respondents and only 2 respondents did not attempt this question. See table xiii for details.

Table xviii. How would you like to receive the returns every year

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid dividend payout	28	56.0	58.3	58.3
Valid dividend re-investment	5	10.0	10.4	68.8
Valid Growth in NAV	15	30.0	31.3	100.0
Total	48	96.0	100.0	
Missing System	2	4.0		
Total	50	100.0		

The analysis from table xiii shows that 58% (28 respondents) preferred to get dividend payout, 31.3% (15 respondents) preferred to get their returns in terms of growth in NAV, and 10.4% (respondents) preferred dividend re-investment while 4% of the respondents did not answer the questions.

Additional analysis

A chi-square test was run to determine if the preference of the most alluring factors in CIS influenced the respondents into investing in CIS within Kisumu city. See case by case summaries in the tables below.

The first chi-square test was run to determine if the preference of diversification as an alluring factor has a significant impact to those who were found to have invested within CIS within Kisumu city table 1 below shows the finds henceforth.

Table xix: Diversification as an alluring CIS features * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	64.000 ^b	62	.406
	Likelihood Ratio	34.468	62	.998
	N of Valid Cases	32		
2	Pearson Chi-Square	16.000 ^c	14	.313
	Likelihood Ratio	14.404	14	.420
	N of Valid Cases	8		
Total	Pearson Chi-Square	120.000 ^a	117	.406
	Likelihood Ratio	56.668	117	1.000
	N of Valid Cases	40		

Analysis results: The chi square test statistic is 120.00 with as associated p value of $p < 0.406$

The null hypothesis is not rejected since $p < 0.406$

Hence diversification as an alluring factor has influence to investors investing in CIS however; diversification in itself cannot be depended on as the sole and most alluring feature that influences the investors to make investments in CIS within Kisumu City.

Table xx. Potential superior returns as an alluring CIS features * Ser No * Have you invested your money in CIS

A chi-Square test was run to determine if Diversification as an alluring factor was the most outstanding alluring feature of CIS, the result are as shown in the table below.

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	62.000 ^b	60	.405
	Likelihood Ratio	57.233	60	.577
	N of Valid Cases	31		
2	Pearson Chi-Square	21.000 ^c	18	.279
	Likelihood Ratio	18.925	18	.396
	N of Valid Cases	7		
Total	Pearson Chi-Square	114.000 ^a	111	.404
	Likelihood Ratio	86.063	111	.962
	N of Valid Cases	38		

Analysis results: The chi square test statistic is 114.00 with as associated p value of $p < 0.404$

The null hypothesis is not rejected since $p < 0.404$

Hence potential superior returns as an alluring factor turned out to as a factor that certainly influences investors to invest in CIS however; potential returns s a feature cannot stand alone in influencing or alluring investors to make investments in CIS within Kisumu City.

Table xxi. Easy and affordable investments as an alluring CIS features * Ser No *
Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	87.000 ^b	84	.390
	Likelihood Ratio	79.145	84	.629
	N of Valid Cases	29		
2	Pearson Chi-Square	16.000 ^c	14	.313
	Likelihood Ratio	17.315	14	.240
	N of Valid Cases	8		
Total	Pearson Chi-Square	111.00 0 ^a	108	.402
	Likelihood Ratio	102.28 3	108	.637
	N of Valid Cases	37		

Analysis results: The chi square test statistic is 102.28 with an associated p-value of $p < 0.402$

The null hypothesis is not rejected since $p < 0.402$ in the test.

An easy and affordable investment as an alluring factor has a significant impact to those who were found to have invested in CIS within Kisumu City.

Table xxii. Low transaction cost as an alluring CIS features * Ser No. * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	Df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	81.000 ^b	78	.386
	Likelihood Ratio	72.563	78	.653
	N of Valid Cases	27		
2	Pearson Chi-Square	16.000 ^c	14	.313
	Likelihood Ratio	11.770	14	.625
	N of Valid Cases	8		
Total	Pearson Chi-Square	105.000 ^a	102	.400
	Likelihood Ratio	90.487	102	.786
	N of Valid Cases	35		

Analysis results: The chi square test statistic is 105.00 with as associated p value of $p < 0.400$

The null hypothesis is not rejected since $p < 0.400$

Hence Low transaction as an alluring factor was found to have a significant impact to those who invested within CIS Kisumu City.

**Table xxiii. Expertise in professional management as an alluring CIS features * Ser
No * Have you invested your money in CIS**

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	84.000 ^b	81	.388
	Likelihood Ratio	54.260	81	.990
	N of Valid Cases	28		
2	Pearson Chi-Square	21.000 ^c	18	.279
	Likelihood Ratio	17.878	18	.464
	N of Valid Cases	7		
Total	Pearson Chi-Square	105.000 ^a	102	.400
	Likelihood Ratio	77.725	102	.965
	N of Valid Cases	35		

Analysis results: The chi square test statistic is 105.00 with as associated p value of $p < 0.400$

The null hypothesis is not rejected since $p < 0.400$

Therefore **expertise in professional management** as an alluring factor was found to have a significant impact to those who have invested in CIS within Kisumu City.

Table xxiv. Value for money as an alluring CIS features * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	93.000 ^b	90	.393
	Likelihood Ratio	64.412	90	.981
	N of Valid Cases	31		
2	Pearson Chi-Square	21.000 ^c	18	.279
	Likelihood Ratio	17.878	18	.464
	N of Valid Cases	7		
Total	Pearson Chi-Square	114.000 ^a	111	.404
	Likelihood Ratio	84.853	111	.969
	N of Valid Cases	38		

Analysis results: The chi square test statistic is 114.00 with as associated p value of $p < 0.404$

The null hypothesis is not rejected since $p < 0.404$

Hence value for money as an alluring factor was found have a significant impact to those who invested in CIS within Kisumu City.

Table xxv. Flexible investment option as an alluring CIS features * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	78.000 ^b	75	.384
	Likelihood Ratio	61.627	75	.866
	N of Valid Cases	26		
2	Pearson Chi-Square	14.000 ^c	12	.301
	Likelihood Ratio	14.059	12	.297
	N of Valid Cases	7		
Total	Pearson Chi-Square	99.000 ^a	96	.397
	Likelihood Ratio	80.970	96	.864
	N of Valid Cases	33		

Analysis results: The chi square test statistic is 99.00 with as associated p value of $p < 0.397$

The null hypothesis is not rejected since $p < 0.397$

Hence flexible investment as an alluring factor has a significant impact to those who invested in CIS within Kisumu City.

Table xxvi. Liquidity as an alluring CIS features * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	87.000 ^b	84	.390
	Likelihood Ratio	57.956	84	.987
	N of Valid Cases	29		
2	Pearson Chi-Square	14.000 ^c	12	.301
	Likelihood Ratio	15.106	12	.236
	N of Valid Cases	7		
Total	Pearson Chi-Square	108.000 ^a	105	.401
	Likelihood Ratio	80.215	105	.966
	N of Valid Cases	36		

Analysis results: The chi square test statistic is 108.00 with as associated p value of $p < 0.401$

The null hypothesis is not rejected since $p < 0.401$

Hence liquidity as an alluring factor has a significant impact to those who invested in CIS within Kisumu City.

Table xxvii. Tax efficiency as an alluring CIS features * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	84.000 ^b	81	.388
	Likelihood Ratio	73.817	81	.702
	N of Valid Cases	28		
2	Pearson Chi-Square	21.000 ^c	18	.279
	Likelihood Ratio	17.878	18	.464
	N of Valid Cases	7		
Total	Pearson Chi-Square	105.000 ^a	102	.400
	Likelihood Ratio	93.819	102	.706
	N of Valid Cases	35		

Analysis results: The chi square test statistic is 105.00 with as associated p value of $p < 0.400$

The null hypothesis is not rejected since $p < 0.400$

Hence tax efficiency as an alluring factor has a significant impact to those who invested in CIS within Kisumu City.

Table xxviii. Safety and transparency as an alluring CIS features * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	58.000 ^b	56	.401
	Likelihood Ratio	51.948	56	.629
	N of Valid Cases	29		
2	Pearson Chi-Square	21.000 ^c	18	.279
	Likelihood Ratio	17.878	18	.464
	N of Valid Cases	7		
Total	Pearson Chi-Square	108.000 ^a	105	.401
	Likelihood Ratio	84.011	105	.935
	N of Valid Cases	36		

Analysis results: The chi square test statistic is 108.00 with as associated p value of $p < 0.401$

The null hypothesis is not rejected since $p < 0.401$

Hence Safety and transparency as an alluring factor has a significant impact to those who invested in CIS within Kisumu City.

Table xxix. Source of information while investing in collective schemes * Ser No *
Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	68.000 ^b	64	.343
	Likelihood Ratio	29.641	64	1.000
	N of Valid Cases	17		
2	Pearson Chi-Square	27.000 ^c	24	.304
	Likelihood Ratio	21.868	24	.587
	N of Valid Cases	9		
Total	Pearson Chi-Square	104.000 ^a	100	.372
	Likelihood Ratio	59.059	100	1.000
	N of Valid Cases	26		

Analysis results: The chi square test statistic is 104.00 with as associated p value of $p < 0.372$

The null hypothesis is not rejected since $p < 0.372$

Hence Source of information as an alluring factor was found to have a significant impact to those who invested in CIS within Kisumu City.

Table xxx. What type of return do you prefer? * Ser No. * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	72.000 ^b	70	.411
	Likelihood Ratio	71.391	70	.431
	N of Valid Cases	36		
2	Pearson Chi-Square	12.000 ^c	11	.364
	Likelihood Ratio	15.276	11	.170
	N of Valid Cases	12		
Total	Pearson Chi-Square	96.000 ^a	94	.423
	Likelihood Ratio	91.100	94	.565
	N of Valid Cases	48		

Analysis results: The chi square test statistic is 96.00 with as associated p value of $p < 0.423$

The null hypothesis is not rejected since $p < 0.423$

Hence the preferred return as an alluring factor was found to have a significant impact to those who invested in CIS within Kisumu City.

Table xxxi. When you invest in mutual funds which mode of investment will you prefer? * Ser No. * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	36.000 ^b	35	.422
	Likelihood Ratio	47.092	35	.083
	N of Valid Cases	36		
2	Pearson Chi-Square	12.000 ^c	11	.364
	Likelihood Ratio	13.496	11	.262
	N of Valid Cases	12		
Total	Pearson Chi-Square	48.000 ^a	47	.432
	Likelihood Ratio	61.105	47	.081
	N of Valid Cases	48		

Analysis results: The chi square test statistic is 48.00 with as associated p value of $p < 0.432$

The null hypothesis is not rejected since $p < 0.432$

Hence preferred mode of investment was also found to have a significant impact to those who invested in CIS within Kisumu City.

Table xxxii. How would you like to receive the returns every year * Ser No * Have you invested your money in CIS

Chi-Square Tests

Have you invested your money in CIS		Value	df	Asymp. Sig. (2-sided)
1	Pearson Chi-Square	72.000 ^b	70	.411
	Likelihood Ratio	66.299	70	.603
	N of Valid Cases	36		
2	Pearson Chi-Square	24.000 ^c	22	.347
	Likelihood Ratio	21.305	22	.502
	N of Valid Cases	12		
Total	Pearson Chi-Square	96.000 ^a	94	.423
	Likelihood Ratio	87.696	94	.663
	N of Valid Cases	48		

Analysis results: The chi square test statistic is 96.00 with as associated p value of $p < 0.423$

The null hypothesis is not rejected since $p < 0.423$

Hence preferred returns as an alluring factor was also found to have a significant impact to those who invested in CIS within Kisumu City.

Additional Analysis

A cross tabulation was done to see whether the preferred return type depends on which mode of investment one used when investing in mutual funds .Basing on the Pearson Chi-Square the p value $.229 > \alpha$ value 0.01. I therefore, conclude that the two are independent from each other. See table below for details.

Table xxxiii

Chi-Square Tests on question 5 vs 6 section D

	Value	df	Asymp. Sig. (2- sided)	Monte Carlo Sig. (2-sided)			Monte Carlo Sig. (1-sided)		
				Sig.	99% Confidence Interval		Sig.	99% Confidence Interval	
					Lower Bound	Upper Bound		Lower Bound	Upper Bound
Pearson Chi-Square	2.946 ^a	2	.229	.211 ^b	.201	.222			
Likelihood Ratio	4.489	2	.106	.179 ^b	.169	.189			
Fisher's Exact Test	2.663			.264 ^b	.253	.275			
Linear-by- Linear Association	.310 ^c	1	.578	.615 ^b	.602	.628	.344 ^b	.331	.356
N of Valid Cases	48								

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.67.

b. Based on 10000 sampled tables with starting seed 1502173562.

c. The standardized statistic is .557.

2. A second cross tabulation was done to determine whether the preferred type of return depends on how one would like to receive the returns at the end of the year. Basing on the Pearson Chi-Square the p value $.712 >$ alpha value 0.01 .we therefore conclude that the two are independent

Table xx

Table xxxiv. Chi-Square Tests on question 4 vs 6 section D

	Value	df	Asymp. Sig. (2- sided)	Monte Carlo Sig. (2-sided)			Monte Carlo Sig. (1-sided)		
				Sig.	99% Confidence Interval		Sig.	99% Confidence Interval	
					Lower Bound	Upper Bound		Lower Bound	Upper Bound
Pearson Chi-Square	2.128 ^a	4	.712	.740 ^b	.729	.752			
Likelihood Ratio	2.275	4	.685	.801 ^b	.790	.811			
Fisher's Exact Test	2.588			.664 ^b	.652	.677			
Linear-by- Linear Association	.155 ^c	1	.694	.718 ^b	.706	.730	.367 ^b	.355	.380
N of Valid Cases	48								

a. 6 cells (66.7%) have expected count less than 5. The minimum expected count is .73.

b. Based on 10000 sampled tables with starting seed 2000000.

c. The standardized statistic is -.394.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

A **collective investment scheme** is a way of investing money alongside other investors in order to benefit from the inherent advantages of working as part of a group. These advantages include ability to

- hire a professional investment manager, which theoretically offers the prospects of better returns and/or risk management
- benefit from economies of scale - cost sharing among others
- Diversify more than would be feasible for most individual investors which, theoretically, reduce risk among others.

Diversity and risk

One of the main advantages of collective investment is the reduction in investment risk (capital risk) by diversification. An investment in a single equity may do well, but it may collapse for investment or other reasons (e.g., Marconi, Enron). If your money is invested in such a failed holding you could lose your capital. By investing in a range of equities (or other securities) the capital risk is reduced.

This **investment principle** is often referred to as **spreading risk**.

Collective investments by their nature tend to invest in a range of individual securities. However, if the securities are all in a similar type of asset class or market sector then there is a systematic risk that all the shares could be affected by adverse market changes. To avoid these systematic risk investment managers may diversify into different non-perfectly-correlated asset classes. For example, investors might hold their assets in equal parts in equities and fixed income securities.

Reduced dealing costs

If one investor were to buy a large number of direct investments, the amount they would be able to invest in each holding is likely to be small. Dealing costs are normally based on the number and size of each transaction; therefore the overall dealing costs would take a large chunk out of the capital (affecting future profits)

This study has attempted to investigate whether collective investment schemes are demanded in Kisumu City. Also, it attempted to assess the source of investment information to the City. It also attempted to know what factors determines the demand for collective investment schemes. Based on the documented advantages of collective investment schemes presented in chapter one, the researcher was trying to investigate what characteristic allured people most to the mutual fund in Kisumu City.

From the analysis, there is enough evidence found to support our hypothesis that collective investment schemes are demanded in Kisumu. With 72% of the respondent having invested in the mutual funds and that 28% think mutual funds is ranked higher than other forms of investment and that 52% of the respondent saying they are regular investors in mutual funds, there could be a conclusion that there is indeed demand of investment schemes.

The study has found that financial advisors highest percentage of 28% in informing the people on CIS, Banks followed closely with 25%, Advertisements then came in third with a total of 24%, peer groups then followed closed with 23%. Thus the survey can conclude that even though there are different methods of informing the people on CIS the methods have very little margins in terms of their preference to the respondents. Therefore, all the avenues could still be strengthened for investment information dissemination.

The survey also found out that while investing in CIS, 61% respondents get their information on CIS from the financial advisors, 19.2% were found to have gotten their information of CIS from the internet, Magazines and advertisements had a total 7.7% each while newspapers only had a total of 3.8% in terms of providing information for the respondents on investing in CIS. This could point to the fact that the advisors could be in possession of valuable information on CIS that is critical to the investors in the funds. It can only be concluded that CIS operational in Kisumu could explore contracting field representatives to provide extension services to the investors.

The survey also found that apart from other factors that drive people to invest in CIS, diversification was found to be the most attractive feature at 19%, liquidity, values for money and expertise in professional management all came in at the second position with all scoring a total of 13% each. Potential superior returns then followed closely with a

12%, low transaction cost then followed registering a 9%, safety and transparency then followed closely registering 8%, easy and affordable investments followed registering a 6%, flexible investment options then followed registering a 4% while tax efficiency was found to be the most unattractive feature of the CIS. Tax efficiency registered a total of 3%. It can therefore be concluded that diversification determines demand for CIS as well as professional management, liquidity, value for money, potential high returns and safety and transparency. Investors have confidence that CIS will deliver in this features.

Affordability, flexible investment and tax efficiency are some of the advantages of CIS. However, the survey realized that they are the least determinant of demand for CIS in Kisumu City. However, this may be due to omission of variables due to unavailability of data that could have given a different result. Some of them may include tax characteristics, availability of investment cost comparison different investment plans, and so on.

Recommendation

Collective investment schemes should emphasize diversification to increase the investors' values.

Investor education should be advances to cover the areas that the investors and potential investors are not conversant with, taxation being one of them.

Features that allure the investors to CIS need to be improved even further to facilitate more enrolment in the funds by the Kisumu City investors.

A niche market should be developed among Sacco's and investment companies. This is necessitated by the fact that these organizations mobilize funds from their members and for the purposes of investing.

A recommendation from this study is for further research to be carried out in this area and adding more variables to the study to compare the results.

References

- Aczel D. Amir (1999). *Complete Business Statistics* (4th Edition), Boston, Irwin Co..
- Adams, Andrew A. (2004). *The Split Capital Investment Trust Crisis*. New Jersey, [John Wiley & Sons](#). ISBN 978-0-470-86858-4.
- Agarwal, G.D. (1992). Mutual Funds and Investors Interest, Chartered Secretary Vol.22, No.1, 2, 23-24.
- Ajay, Srinivasan, (1999). Mutual Funds: The New Era, Chartered Secretary A 262.
- Anjan Chakrabarti and Harsh Rungta, (2000,). Mutual Funds Industry in India: An in depth look into the problems of credibility, Risk and Brand. *The ICAI Journal of Applied Finance*, 6(2), , 27-45.
- Atmaramani, (1996) Restoring Investor Confidence. *The Hindu Survey of Indian Industry* ,435-437.
- Bodie, ZVI., Kane, A., and Marcus, AJ (1999). *Investments*. (4th edition), Boston: McGraw-Hill
- Bogle, JC (2007, Feb 20th)., *Designing a New Mutual Fund Industry*. Keynote address before the 25th conference of the national investment companies service association, Miami Florida. Retrieved from <http://johncbogle.com/>
- Brown, SJ & Goetzmann, WN (1995). Performance Persistence. *Journal of finance*, 50(2)679-698. Retrieved from <http://papers.ssrn.com/>
- Bogle, JC (2006). What's happened to the Mutual Fund Industry? Remarks made before the CFA Society of San Francisco. Retrieved from: <Http://johncbogle.com/speeches/JCB CFA San Fran.pdf>.

Bogle, J.C (1998). The Four Dimensions of Investment Returns. Keynotes Speech to the Institute for Private Investors, Spring Forum. Retrieved from:

http://johncbogle.com/speeches/JCB_IPI_5-98pdf

Bogle, J.C. (1999). *Common Sense on Mutual Fund.-New Imperative for the Intelligent Investor*. New York, John Wiley & Sons.

Capital Market Authority (2011), Investor Education-Collective Investment Schemes (unit trusts): *What You Should Know*.

Carlisle, James (2002-10-30). The Lesson From The Split Capital Debacle. Market Comment. The Motley Fool

Churchill(2011) Modern methods, traditional values, Churchill Plc.

Deloitte & Touche (2011). All rights reserved Collective investment Schemes, The impact of Solvency II

Dominic Kiarie(2006) General Manager British -American Asset Managers Ltd Nairobi, Kenya, Investing in Kenya's investment market through unit trust.

Fisher, I. (1906). *The Nature of Capital and Income*. New York, The Macmillan Company.

Fisher, I (1930). *The Theory of Interest*. New York, The Macmillan Company.

Goetzmann, W. N (1997). An Introduction to Investment Theory. Retrieved from <http://viking.som.yale.edu/wil/finman540/classnotes/notes.html>

Obioma, Godfrey (2011 Oct 27th) Harnessing the benefits of collective investment schemes to achieve national development goals

Hayek, FA (1941). *The pure theory of capital*. Retrieved from Ludwig van Moses Institute: <http://blog.mises.org/archive/005939.asp>

Ippolito, R., (1991).Consumer reaction to measures of poor quality: Evidence from Mutual Funds.*Journal of Law and Economics*, 35, 45-70

Kenya National Bureau of Statistics [KNBS] (2009)-Kenya Demographic and Health Survey 2008-2009 Preliminary Report (Nairobi: Kenya National Bureau of Statistics). Retrieved on June 16, 2010..

Kenneth Rapoza (2007), Newspaper Documentary; *About Mutual Funds*, Dow Jones Newswires, Brazil

Keynes, JM (1936). *The General Theory of Employment, Interest and Money*. London, Macmillan Press. Retrieved from: <http://cepa.newschool.rdu/>

Kogi Wambui MBA, (2003), The future of Collective Investment Scheme in Kenyan Capital Market.

Krishnan, M.A., (1999) Moving into Growth Mode pp 16, The Hindu Survey of Indian Industry.

Lydia Karingithi (2003), Factors Affecting Growth of Collective investment Schemes in Kenya

Lintner, J. (1965). The risk of assets and the selection of risk investment in stock portfolio and capital budgets. *Review of Economics and Statistics*(Provide details about the edition and relevant information)

Madhusudan V. Jambodekar,(1996)Marketing Strategies of Mutual Funds – Current Practices and Future Directions. *Working Paper, UTI – IIMB Centre for Capital Markets Education and Research*, Bangalore.

Maslow, A. (1954).*Motivation and Personality*. New York, Harper & Row.

Markowitz, H (1952). Portfolio selection.*The Journal of Finance*, 7(1), Retrieved from<http://cowles.econ.yale.edu/P/cp/p0060.pdf>.

Markowitz, H (1959). *Portfolio Selection: Efficient diversification of investment*. New York, John Wiley & Sons, Inc.

Mason D. Robert, Lind A. Douglas, and Marshal G. Williams, (1999). *Statistic Technique in Business and Economics* (9th Ed). Irwin, McGraw-Hill.

Max, J, Mpofu, R & van der Venter, G (2003). *Investment Management*. Pretoria, Van Schaik.

Mossin, J (1966). Equilibrium in a capital asset market. *Econometrica*.34(4), 768-783.

Mwangi I.G(2003). An Investigation into Unit Trust Investment by SACCOS in Nairobi pp 18 Nairobi.

Raja Rajan V. (1997, Feb 23), Chennai Investor is conservative, Business Line

Raja Rajan,(1997). Investment size based segmentation of individual investors. *Management Researcher*, 3 (3&4), 21-28.

Sandeep Bamzai,(2000, April 21st,Sept 3), Meltdown blues impact industry, Business India 120-132.

Sophia Kafui Teye, (2011)-Collective Investment Schemes, pp 7, Nairobi

UN-Habitat , (2003) Kisumu City Development Strategy, pp 19 & 20, Kenya

William F. Sharpe (1972). Risk Market Sensitivity and Diversification. *Financial Analysts Journal*(which edition?) pp. 74-79

Zorro (2010) Collective investment schemes-A look at Mutual Funds pp 8, Irwin, McGraw-Hill, New York

APPENDICES 1.

COLLECTIVE INVESTMENTS SCHEMES OPERATIONAL IN KENYA

	Name	Type of Fund(s)	Minimum Investment Amount (Kshs.)
1	African Alliance Kenya Unit Trust Scheme	1.Shilling Fund 2.Fixed Income 3.Managed Fund 4.Equity Fund	100,000.00 (all the funds)
2	Old Mutual Unit Trust Scheme	1.Equity Fund 2. Money Market Fund 3. Balanced Fund	200,000.00 (all the funds)
3	British American Unit Trust Scheme	1. Money Market Fund 2. Income Fund 3. Balanced Fund 4. Managed Retirement Fund 5. Equity Fund	250,000.00 (all the funds) Kshs.150, 000.00 and a top of Kshs. 25,000 per month for 4 consecutive months.
4	Stanbic Unit Trust Scheme	1. Money Market Fund 2. Flexible Income Fund 3. Managed Prudential Fund	1,000,000.00 (all the funds)
5	Commercial Bank of Africa Unit Trust	1. Money Market Fund 2. Equity Fund	500,000.00 (all the funds)
6	Zimele Unit Trust Scheme	1. Balanced Fund 2. Money Market Fund	5,000.00 (Balanced Fund) 5,000.00 (Money Market Fund)
7	Suntra Unit Trust Scheme	1.Balanced Fund 2. Money Market Fund 3. Equity Fund	100,000.00 (all the funds)
8	ICEA Unit Trust Scheme	1. Money Market Fund 2. Equity Fund 3. Growth Fund	100,000.00 (all the funds)

Source: CMA (2011)

APPENDICES 2:

QUESTIONNAIRE ON COLLECTIVE INVESTMENT SCHEMES (CIS)

A survey questionnaire on determinants of Demand for Collective Investment Scheme in Kisumu City

Dear Respondent

You are one of the Saccos/Investment Companies in Kisumu City that have been selected randomly to participate in the above research project. This is not an investigation on any investment or investment decision, but rather a survey on determinant of demand for collective investment schemes in Kisumu.

You are kindly requested to respond to the statements herein that best reflect your opinion. All information provided will be treated in strict confidence. Thank you for your co-operation.

SECTION A

1. Organization's Details:

1. Sacco Investment Company

a) Indicate number of years your organization's has operated in
Kisumu City:- 0-2years 3-5 years 5-10years 10 years and over

b). what is your organization's monthly income from activities other than investments?

Up to Shs.10, 000 Sh. 10,001 to 15,000 Sh. 15,001 to 30, 000 Sh. 30,001 and above

SECTION B

1. Investment knowledge

Are you involved in any type of business?

a) Yes No

b) If yes, what is the average monthly return from the business?

Up to Shs.20, 000 Sh.20, 001-50,000 Sh.50, 001-100, 000

Sh. 100,001 and above

c) If no why? _____

d) While investing funds, which factors do you prefer? (1-highly, 2-most, 3-average, 4-lowly considered.)				
	1	2	3	4
Liquidity				
Low Risk				
High Returns				
Others(Specify)				
e) What kind of investments do you prefer most? Pl tick (√). All applicable (1-highly, 2-most, 3-average, 4-lowly preferred.)				
Savings Account	1	2	3	4
Fixed Deposit				
Shares/debentures				
Mutual funds				
Real estate				
Others(Specify and please provide reason for your choice)				
f) What is your organization's investment horizon (1-highly, 2-most, 3-average, 4-lowly preferred.)				
	1	2	3	4
Up to 1 year				
1 to 2 years				
3 to 5 years				
5 years or more				
Others(Specify)				

SECTION C

1. Knowledge about collective investment schemes

a) How did you come to know about collective investment schemes? (please tick appropriately ranking each category on the affectivity of the information received.with-1 most and 4 least effective)				
	1	2	3	4
Advertisement				
Peers groups				
Banks				
Financial advisors				
Others(Specify)				

b) Have you ever invested your money in CIS?

Yes No

If yes,

c) Where do you find yourself as a CIS investor?

Totally ignorant [] Partial knowledge of CIS []

d) If not invested in CIS then why?

Not aware of CIS Higher risk Not any specific reason

SECTION D

1. Investing in Collective investment schemes (CIS)

a) Are you a regular or a new investor in mutual fund?

Regular [] New []

2. Which feature of CIS allure you most (Please tick appropriately ranking your motivation with 1 as most attractive 2-attractive and 3-indifferent and 4 least attractive).				
	1	2	3	4
Diversification				
Potential superior returns				
Easy and affordable investment				
Low transaction cost				
Expertise in professional management				
Value for money				
Flexible investment option				
Liquidity				
Tax efficiency				
Safety and transparency				

3. What is your source of information while investing in collective investment schemes?

- a) Internet b) Magazine c) Newspaper d) Financial Advisor e) Spouse f) Friends g) Advertisements

4. What type of return do you prefer?

- Monthly Quarterly Semiannual Annual

5). When you invest in Mutual Funds which mode of investment will you prefer?

- a. One Time Investment b. Systematic Investment Plan (SIP)

6). How would you like to receive the returns every year?

- a. Dividend payout b. Dividend re-investment. Growth in NAV