

**INFORMATIONAL CONTENT OF GENERAL ELECTION
RESULTS ANNOUNCEMENT AT THE NAIROBI SECURITIES
EXCHANGE**

By

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
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DECLARATION


This Research project is my original work and has not been presented in any other University.

Signed.......... Date 9/11/12

Anthony Kirugu Irungu

D63/63389/2011

This Research project has been submitted for presentation with my approval as University Supervisor.

Signed.......... Date 9/11/2012

Supervisor: Mr. C. Iraya

DEDICATION

The research project is dedicated to my family.

ACKNOWLEDGEMENT

I wish recognize a number of individuals who contributed to the successful completion of this research project.

Special appreciation goes to my supervisor Mr. C. Iraya. I wish to sincerely acknowledge your professional advice and guidance in the research project. To my family and friends for their moral support and encouragement during the study. To all of you kindly accept my appreciation for your great support.

ABSTRACT

Elections not earnings are now driving financial markets around the world. Price Earnings ratios determine the performance of many stock exchanges and a major source of all that stomach-churning stock-market volatility where the abnormal returns are blamed on elections results announcement. To determine the effects of general results on stock market performance using a case of the Nairobi Securities Exchange.

The study adopted event study methodology. The event that affects a firm's market value may be within the firm's control, such as the event of the announcement of a stock split. The target population for this study included: companies trading at the Nairobi Security Exchange as at December 31st 2007 that compute the NSE 20 share Index. Because of the small number of firms and the fact that the study will use secondary data, the study conducted a census hence there was no sampling. Data was obtained from the NSE covering the period between 31st December 1997 and 31st December 2007. The study collected data on NSE 20 share index and market capitalization for NSE for the two general elections results announcement. These dates included 29th December, 2002 and 30th December 2007. The study computed the changes recorded in share prices as measured by the market capitalization and NSE 20 Share index.

The study concludes that there is a strong relationship between general election results announcement on stock market performance of the Nairobi Securities Exchange. The announcement of general election results brings with it the hope and stability that otherwise the investors were worried of. As a result, the announcement of general election results brings about the stability in the market and allows the forces of demand and supply to drive the operations of the market. The Government of Kenya needs to create complete independence of the Nairobi Securities Exchange so that operations of the securities exchange are not affected because of its key position in the economy especially in the form of raising long term capital.

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LIST OF ABBREVIATIONS

EMH	Efficient Market Hypothesis
KADU	Kenya African Democratic Union
KANU	Kenya Africa National Union
MPT	Market Portfolio Theory
NSE	Nairobi Securities Exchange
RWH	Random Walk Hypothesis
US	United States

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Election results may influence corporate performance by general changes in government spending and tax changes as some companies or sectors benefit or suffer from sector-specific governmental decisions (Bloomberg and Hess, 2001). Stock market participants incorporate expectations about political change into stock prices prior to an election and adjust their opinion according to the actual decision making following the election (Oehler, Walker and Wendt, 2009). Election results may affect post-election corporate performance either by influencing a country's overall economy, like through changes in government spending either through fiscal changes, or company or sector-specific decisions such as changes in the regulatory environment after the new administration has been established (Fiorina, 1991). Prices are the outcomes of volatile human expectations, shifting the supply and demand lines, and causing prices to oscillate. Fluctuations in prices are a natural process of changing expectations, thereby leading to cyclical patterns. There are many kinds of cycles, with the combined effect of driving movements in stock prices (Leblang and Mukherjee, 2005).

Alesina and Rodrik (1994) argue that politics can shape economic outcomes, affect asset prices, and change financial risk. Political scientists and economists alike are increasingly interested in the interplay between politics and stock markets (Schneider and Tröger 2006; Jensen and Schmith, 2004). One reason for this increased attention can be seen in the opportunity to test the explanatory power of established politico-economic models. If different parties strategically manipulate the economy to optimally benefit their voter

base their economic policies should produce distinct reactions by stock markets. Another reason is rooted in research into the effects of globalization on the policy options left to parties (Garrett, 1998). If economic integration induces parties' policies to converge, national partisan effects on global financial markets should disappear. A final source fostering scholarly interest is the considerable public attention drawn by stock market developments.

In the Kenya, general political elections are a key inflection point of change in the political landscape (Kithinji, 2008). As such, an increasing likelihood of a candidate's victory should be reflected in stock prices. However, expectations about election results are not always clear-cut. Therefore, futures markets increase in volatility in tight elections due to uncertainty about election results and their implications greatly affect the performance of a stock exchange (Jones, 2008).

Stock markets in the world individually and collectively play a critical role in their economies as they provide an avenue for raising funds, for trading in securities including futures, options and other derivatives which provide opportunities for investors to generate returns (Alesina and Rodrik, 1994). The markets perform a wide range of economic and political functions while offering trading, investment, speculation, hedging, and arbitrage opportunities. In addition they serve as a mechanism for price discovery and information dissemination while providing vehicles for raising finances for companies. Stock markets are used to implement privatization programs, and they often play an important role in the development of emerging economies (Lee, 1998).

In Kenya, dealing in stocks and shares started in the 1920s when the country was still under British colony. There was however no formal market, no rules and no regulations to govern stock brokerage activities. Trading took place on gentlemen's agreement in which standard commissions were charged with clients being obligated to honor their contractual agreements of making good delivery and settling relevant costs. In 1951 an Estate Agent by the name of Francis Drummond established the first professional stock broker firm and other stock brokerage firms were later established. The NSE came into being in 1954 when trading used to take place over a cup of tea at the New Stanley Hotel (Kithinji, 2008).

As Kenya prepared for independence, two national parties were formed: Kenya Africa National Union (KANU) and the Kenya African Democratic Union (KADU) and the country attained independence on 12th December 1963 from the United Kingdom and a year later the Republic of Kenya was formed (<http://africanelections.tripod.com/ke>). In December 1991 the then ruling party KANU held special conference and agreed to introduce a multiparty system of government. The constitution was also changed to limit the presidential term of office to two five –year terms. Thereafter, the elections have been held in Kenya after every five years: 1992, 1997, 2002 and 2007.

1.1.1 Information Content of General Election Results

Elections not earnings are now driving financial markets around the world. It's about exit polls, not Price Earnings ratios that are determining the performance of many stock exchanges and a major source of all that stomach-churning stock-market volatility where the abnormal returns are blamed on elections results announcement (Kithinji, 2008).

The economy is still a major factor in determining financial security or whether investments rise or fall in value at the stock exchange but the outcome of key elections are likely to have a bigger impact on money-related issues for the rest of the year and beyond on a stock exchange. Policymakers become the primary market movers as investors react more to perceived changes to policy as opposed to pure economics. The announcement of general results communicates some important information to the investors which makes them act in a certain way to protect their investments (Oehler, Walker and Wendt, 2009).

1.1.2 The Nairobi Securities Exchange

The Nairobi Stock Exchange was constituted as a voluntary association of stock brokers registered under the societies Act in 1954 and in 1991 the Nairobi Stock Exchange was incorporated under the Companies Act of Kenya as a company limited by guarantee and without a share capital. Subsequent development of the market has seen an increase in the number of stockbrokers, introduction of investment banks, establishment of custodial institutions and credit rating agencies and the number of listed companies have increased over time. Securities traded include, equities, bonds and preference shares (www.nse.co.ke).

In 2001, NSE was restructured to give rise to three market segments namely; the Main Investments Market Segment (MIMS), the Alternative Investment Markets Segment (AIMS) and the Fixed Income Securities Market Segment (FISMS) (www.nse.co.ke). The MIMS is the main quotation market, the AIMS provide an alternative method of raising capital to small, medium sized and young companies that find it difficult to meet the more stringent listing requirements of the MIMS while the FISMS provides

an independent market for fixed income securities such as treasury bonds, corporate bonds, preference shares and debenture stocks, as well as short term financial instruments such as treasury bills and commercial papers (www.nse.co.ke)

In November 2004 the Central Depository System was introduced thus automating settlement of transactions at NSE to achieve T+5. The NSE trading hours increased from 2 to 3 hours (10.00 am- 1.00 pm) and subsequently increased to 5 hours (10.00a.m - 3.00p.m). The new system offers and has led to greater transparency in the placement of bids and offers improvement in market surveillance. Transmission is almost real time and trading information relating to index movements, price and volume movements of traded securities is released on a timely basis.

1.2 Statement of the Problem

Elections do matter for the markets, but not necessarily for the reasons that investors tend to believe. Politics can shape economic outcomes, affect asset prices, and change financial risk. In the Presidential Election Cycle Theory, stocks decline in the year immediately following the presidential election, then go up over the course of the next three years, just a year before the next elections in the US. The influence of politics on the performance of stock exchange is exemplified in the information content communicated. During general elections, investors normally have their expectations as regards the likely winner of an election. As such, the announcement of general results is likely to affect the performance of a stock exchange.

In Kenya, the elections have been held since 1963. It first started as a single party election until 1992 when multiparty was introduced in Kenya. Following the introduction

of multiparty politics, a clause was introduced where an elected president services for two five years term on maximum after which he or she has to hand over power to another elected president. The performance of the Nairobi Securities Exchange has been fluctuating during election and after election in Kenya. This study therefore will seek to establish the information content of presidential results announcement at the Nairobi Securities Exchange.

Several studies have been done on the effects of elections on the performance of stock exchanges. Oehler, Walker and Wandt (2009) studied effects of election results on stock price performance using evidence from 1976 to 2008 in the United States. They established that election results may influence corporate performance by general changes in government spending and tax changes. Durnev (2011) studied the real effects of political uncertainty specifically looking at elections and investment sensitivity to stock prices. This study showed that political uncertainty surrounding elections can affect how corporate investment responds to stock prices. Wong and McAleer (2007) did a study on mapping the presidential election cycle in United States stock markets. Their study shows that in the almost four decades from January 1965 through to December 2003, US stock prices closely followed the four-year Presidential Election Cycle where in general, stock prices fell during the first half of a Presidency, reached a trough in the second year, rose during the second half of a Presidency, and reached a peak in the third or fourth year.

In Kenya, several scholars have looked at the concept of performance at the NSE. Kibuthu (2005) looked at capital Markets in Emerging Economies using a case Study of the Nairobi Stock Exchange. Muga (1974) conducted a study on the Nairobi Stock Exchange; it's History, Organization and Role in the Kenyan Economy. Otukey (2006)

looked at the Impact of Central Depository System on the Performance of NSE while Simiyu (1992) looked at the Measuring Market Performance of the NSE. Ondigo (1995) did an empirical test on the information content of the annual reports and acts. From the above discussions, it is evident that further research needs to be done on the effects of election results on stock market performance. This study therefore sought to fill this research gap by establishing the effects of general results on stock market performance using a case of the Nairobi Securities Exchange. To do this, this study sought to answer one question: What are the effects of general results on stock performance at the Nairobi Securities Exchange?

1.3 Research Objective

To determine the effects of general results on stock market performance using a case of the Nairobi Securities Exchange

1.4 Significance of the Study

The study would contribute to the existing literature in the area of general elections and the performance of Nairobi Securities Exchange. The findings of this study would be important to future scholars and academicians because it would serve as a source of reference on the subject besides providing suggestion on areas requiring future study.

The findings of this study would also be important to investors investing at the Nairobi Securities Exchange because it provides vital information for consideration during election periods. It would provide vital information to investors which they can use to judge whether to buy or sell their shares at the NSE.

The findings of this study would also be important to managers at the Nairobi Securities Exchange in understanding the effects of presidential results on the performance of the market. This would help them institute measures required to stabilize the market and avoid abnormal performances at the market. This would ensure increased corporate governance to assure investors of the autonomy of the securities market.

The findings of this study would also be important to government policy makers because it would inform their policy formulation and implementation regarding the management of the security exchange market during elections to ensure capital market stability and reduce capital flights which may lead to huge losses to investors.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature in the area of the study. It looks at the work by other scholars on the subjects of stock market performance during and after elections. In particular, the chapter covers, review of theories, review of empirical studies and chapter summary.

2.2 Review of Theories

2.2.1 Efficient Market Hypothesis (EMH)

In the traditional framework where agents are rational and there are no frictions, a security's price equals its "fundamental value" which takes into account the discounted sum of expected future cash flow thereby allowing investors to form correct decisions regarding their investments. The Efficient Market Hypothesis (EMH), introduced by Markowitz in 1952 and subsequently named by Fama in 1970 assumes that financial markets incorporate all public information and asserts that share prices reflect all relevant information. Correct information is important in forming expectations and allowing investors to correctly process all available information, and where the discount rate is consistent with a normatively acceptable preference specification (Samuelson and Fama, 1965). The hypothesis that actual prices reflects fundamental values is the Efficient Markets Hypothesis (EMH) .which simply means that "prices are right", in that they are set by agents who understand Bayes' law and have sensible preferences. In an efficient market, there is "no free lunch": no investment strategy can earn excess risk-adjusted average returns, or average returns greater than are warranted for its risk

The efficient markets hypothesis (EMH) maintains that market prices fully reflect all available information. Developed independently by Samuelson and Fama (1965), this idea has been applied extensively to theoretical models and empirical studies of financial securities prices, generating considerable controversy as well as fundamental insights into the price-discovery process. The most enduring critique comes from psychologists and behavioural economists who argue that the EMH is based on counterfactual assumptions regarding human behaviour, that is, rationality. In an informationally efficient market, price changes must be unforecastable if they are properly anticipated, that is, if they fully incorporate the information and expectations of all market participants.

The EMH's concept of informational efficiency has a Zen-like, counter-intuitive flavour to it: the more efficient the market, the more random the sequence of price changes generated by such a market, and the most efficient market of all is one in which price changes are completely random and unpredictable. This is not an accident of nature, but is in fact the direct result of many active market participants attempting to profit from their information. Driven by profit opportunities, an army of investors pounce on even the smallest informational advantages at their disposal, and in doing so they incorporate their information into market prices and quickly eliminate the profit opportunities that first motivated their trades (Samuelson, 1965). If this occurs instantaneously, which it must in an idealized world of 'frictionless' markets and costless trading, then prices must always fully reflect all available information. Therefore, no profits can be garnered from information-based trading because such profits must have already been captured (recall the \$100 bill on the ground). In mathematical terms, prices follow martingales.

2.2.2 The Random Walk Hypothesis (RWH)

The importance of the EMH stems primarily from its sharp empirical implications many of which have been tested over the years. Much of the EMH literature before LeRoy (1973) and Lucas (1978) revolved around the random walk hypothesis (RWH) and the martingale model, two statistical descriptions of unforecastable price changes that were initially taken to be implications of the EMH (Fama and Blume, 1966). One of the first tests of the RWH was developed by Cowles and Jones (1937), who compared the frequency of sequences and reversals in historical stock returns, where the former are pairs of consecutive returns with the same sign, and the latter are pairs of consecutive returns with opposite signs.

French and Roll (1986) document a related phenomenon: stock return variances over weekends and exchange holidays are considerably lower than return variances over the same number of days when markets are open. This difference suggests that the very act of trading creates volatility, which may well be a symptom of Black's (1986) noise traders.

2.2.3 Prospect Theory

Tversky and Kahneman (1979) showed how people manage risk and uncertainty by way of developing the Prospect Theory. The theory explains the apparent regularity in human behaviours when assessing risk under uncertainty and assumes that human beings are not consistently risk-averse; rather they are risk-averse in gains but risk-takers in losses. According to Tversky and Kahneman (1974), people place much more weight on the outcomes that are perceived more certain than that are considered mere probable, a feature known as the "certainty effect". People's choices are also affected by 'framing effect' which refers to the way a problem is posed to the decision maker and their 'mental

accounting' of that problem. The value maximization function of the Prospect Theory is different from that of the value maximization function of MPT. Wealth maximization is between gains and losses, rather than over the final wealth position as in MPT (Markowitz, 1952). As such, people may make different choices in situations with identical final wealth levels. Critical to the value maximization is the reference point from which gains and losses are measured. Usually, the status quo is taken as the reference point and changes are measured against it in relative terms, rather than in absolute terms.

2.2.4 The Political Policy Theory

The so-called partisan view of macroeconomics, as described by Alesina (1987), acknowledges that different political parties may have different preferences concerning their economic policy which may be explained by the fact that different parties aim to represent a different part of the electorate, and therefore may have different objectives to be reached with their economic policy. As Nofsinger (2007) points out, the political policy theory implies that if one party has superior economic policies over the other, then a governmental period of this party should lead to a better performance of the economy. This better performance should not only be noticeable through the more conventional economic indicators as inflation and unemployment, but also on the stock market, which then as an indicator of the economy should show higher returns.

2.3 Stock Market Performance Indicators

The prices of stocks around the world do not move together in an exact manner. This is because the economic system in which stock markets are located have dissimilar

environments in terms of taxation, industrial growth, political stability and monetary policies among other factors. Stock markets may experience a general increase in price level referred to as a bull market or general decrease in price level referred to as bear market. Stagnant prices or sudden big price movements downward is referred to as stock market crash.

Among the main measures of stock market performance include; stock market indexing, market capitalization and stock turnover. Stock market indexing is one of the most widely used measures of stock performance. Investors hold portfolios of many assets but it is cumbersome to follow progress on each security in the portfolio. Thus it is prudent to observe the entire market under the notion that their portfolio moved in the same direction as the aggregate market. The market index such as the NSE index is used to observe total returns for an aggregate market and these computed returns are to judge performance of individual portfolios. The assumption is that randomly selecting a large number of stocks from the total market should enable the investor to generate a rate of return comparable to the market (Simiyu, 1992).

Market capitalization is another measure of stock market performance .This measure is used to measure market movements by measuring the total value of stock in a particular stock market by aggregating the market value of the quoted stocks. Changes in market capitalization occur due to fluctuations in share prices or issuance of new share prices or issuance of new shares and bonus issues. This implies that high activity at the stock market may signal more investments in the stock markets. Market turnover indicates inflows and outflows in the stock market and is based on the actively traded shares. A

change occurs due to the actively traded shares and to fluctuations in share prices or number of shares traded in a given day (Otuke, 2006).

Among the determinants of stock market performance include, performance of the economy, monetary policies, fiscal policies, inflation, availability of substitute investments, change of investor preferences and market sentiments. Activities of government and general performance of the economy influence stock market activity and therefore the performance of stock markets. Monetary and fiscal measures enacted by various agencies of national governments influence the aggregate economies of those countries. The resulting economic conditions influence all industries and companies in an economy positively or negatively which in turn affect the performance of stock markets (Reilly, 1997).

Fiscal policy incentives such as tax cuts can encourage spending, where as additional taxes on income, petroleum products, cigarettes, and alcoholic beverages discourage spending. Increase or decrease in government spending also influence the general economic activity by triggering multiplier effect (Stiglitz, 1993). Monetary policy has implications to the economy. A restrictive monetary policy reduces the supply of funds for working capital and expansion of business. Alternatively a restrictive monetary policy may lead to increased interests rates thus increasing the cost of capital which makes it more expensive for individuals to finance home mortgage and purchase of durable goods (Mendelson, 1976).

2.4 Event Study Methodology

Event study methodology is one of the most frequently used analytical tool in financial research. The objective of an event study is to assess whether there are any abnormal or excess returns earned by the security holders accompanying specific events where a abnormal of excess return is the difference between observed returns and the appropriate given a particular return generating model. The event study method is powerful tools that can help researchers assess the financial impact of changes in corporate policy. Using this method, a researcher determines whether there is an "abnormal" stock price effect associated with an unanticipated event (McWilliams and Siegel, 1997). Event studies are based on the theoretical framework of efficient capital markets and the notion that security prices include all information available to the market. As a result, announcements made by firms provide to market participants information that can be impounded into the market price. From the determination, the researcher can infer the significance of the event. This method has been used extensively in accounting and finance, often to measure the impact of corporate control changes. An Event study is a statistical method to assess the impact of an event on the value of a firm. For example, the announcement of a merger between two business entities can be analyzed to see whether investors believe the merger will create or destroy value. The basic idea is to find the abnormal return attributable to the event being studied by adjusting for the return that stems from the price fluctuation of the market as a whole (McWilliams and Siegel, 1997).

As the event methodology can be used to elicit the effects of any type of event on the direction and magnitude of stock price changes, it is very versatile. Event studies are thus common to various research areas, such as accounting and finance, management,

economics, marketing, information technology, law, and political science. One aspect oftentimes used to structure the overall body of event studies is the breath of the studied event types. On the one hand, there is research investigating the stock market responses to economy-wide events like market shocks, such as regulatory changes, or catastrophic events. On the other hand, event studies are used to investigate the stock market responses to corporate events, such as mergers and acquisitions, earnings announcements, debt or equity issues, corporate reorganizations, investment decisions and corporate social responsibility (MacKinlay 1997; McWilliams & Siegel, 1997).

2.5 Empirical Review

Several scholars and researchers have reviewed the concept of elections and stock market performance. Roberts (1990) finds that the stock price performance of the defense sector was positively affected by an increase in the winning probability of Ronald Reagan prior to the 1980 presidential election whereas the overall market remained largely unaffected. Herron et al. (1999) document a significant influence on 15 out of 74 economic sectors as a consequence of a change in the winning probabilities of the candidates during the campaign period of the 1992 presidential election. The study of Bechtel and Füss (2010) provides some international evidence. They analyze the stock price performance and volatility of four economic sectors prior to the elections of the German parliament (Bundestag) during the 1991 to 2005 period. They find that an increasing probability of a more conservative government increases both the mean return and the volatility of the defense and the pharmaceutical sector, whereas the alternative energy sector exhibits higher returns and the consumer sector higher volatility with an increasing probability of a left-leaning government.

Julio and Yook (2009) used an international sample to study how investment changes around national elections. They uncovered political cycles of investments and showed that electoral uncertainty decreases corporate investments at the firm level. Their main argument was that political uncertainty creates uncertainty about future investment payoff, and in response rational managers postpone investments until uncertainty is resolved.

Oehler, Walker and Wandt (2009) studied effects of election results on stock price performance using evidence from 1976 to 2008 in the United States. They established that election results may influence corporate performance by general changes in government spending and tax changes. In addition, specific companies or sectors might benefit or suffer from sector-specific governmental decisions. Stock market participants will incorporate expectations about political change into stock prices prior to an election and adjust their opinion according to the actual decision making following the election. They analyzed abnormal stock price returns around the United States presidential elections from 1976 to 2008 with focus on party-specific favoritism. The results demonstrated statistically significant which showed positive or negative cumulative abnormal price returns for most industries. Most effects appeared to be related to the individual presidents and changes in political decision making per se irrespective of the underlying political ideology.

Durnev (2011) studied the real effects of political uncertainty specifically looking at elections and investment sensitivity to stock prices. This study showed that political uncertainty surrounding elections can affect how corporate investment responds to stock prices. Durnev (2011) argues that during periods of increased political uncertainty, stock

prices play a limited role in guiding corporate investment decisions. Using national elections as a sample of politically uncertain events, Durnev found that during election years; investment is less sensitive to stock prices, the drop in investment-to-price sensitivity is larger when election outcomes are less certain, and the drop in investment-to-price sensitivity is associated with lower post-election company performance. Durnev (2011) therefore concluded that politics has a real impact on corporate performance by altering how managers respond to stock prices when making investment decisions.

Wong and McAleer (2007) did a study on mapping the presidential election cycle in United States stock markets. Their study shows that in the almost four decades from January 1965 through to December 2003, US stock prices closely followed the four-year Presidential Election Cycle where in general, stock prices fell during the first half of a Presidency, reached a trough in the second year, rose during the second half of a Presidency, and reached a peak in the third or fourth year. This cyclical trend was found to hold for the greater part of the last ten administrations, starting from President Lyndon Johnson to the present administration under President George W. Bush, particularly when the incumbent was a Republican.

Bachtel and Fuss (2006) studied partisan politics and stock market performance where they looked at the effect of expected government partisanship on stock returns in the 2002 German federal election. From this study, partisan theory and extant evidence from parties' ideal policies suggest that firms should perform better under right- than under left-leaning governments. If investors anticipate these effects of different parties holding office, changes in expected government partisanship should produce distinct patterns of

stock market performance, with prices reflecting the electoral prospects of the competing parties in the pre-election time.

Mbugua (2003) evaluated the information content of stock dividend announcements using the case of companies quoted at the Nairobi Stock Exchange. Mbugua (2003) findings imply that the market, in the aggregate uses the stock dividend information in setting the equilibrium security prices that much of the NSE's market reactions to such information occurs no later than the declaration date, and that such information tends to produce positive unexpected returns.

Kiptoo (2006) studied information content on dividend announcements by companies quoted in NSE. Kiptoo established that following dividends announcements, the investors interpreted information of dividend declaration in different ways depending on their investment objectives. For long term investors, the regarded dividends as an erosion of their value in the company. These individuals reacted by taking advantage of the risen prices to sell their shares and purchase undervalued shared.

Kariuki (2007) did an analysis of the information content of Economic Value Added as a performance measure of banks in Kenya. The aim of this study was to investigate the relationship between Economic Value Added, traditional performance measures (ROA and ROE) and ability of creation of shareholder wealth for banks in Kenya. The results of regression analysis indicate in all cases a positive correspondence between EVA and financial performance metrics with very low dependency of EVA on the financial metrics and show higher quality information content of EVA indicator in the relationship to the ability of shareholder wealth creation than traditional performance measures.

2.6 Chapter Summary

This chapter reviewed literature by other scholars on the effects of elections on the performance of stock exchanges around the world. Oehler, Walker and Wandt (2009) studied effects of election results on stock price performance using evidence from 1976 to 2008 in the United States. They established that election results may influence corporate performance by general changes in government spending and tax changes. Durnev (2011) studied the real effects of political uncertainty specifically looking at elections and investment sensitivity to stock prices. This study showed that political uncertainty surrounding elections can affect how corporate investment responds to stock prices. Wong and McAleer (2007) did a study on mapping the presidential election cycle in United States stock markets. Their study shows that in the almost four decades from January 1965 through to December 2003, US stock prices closely followed the four-year Presidential Election Cycle where in general, stock prices fell during the first half of a Presidency, reached a trough in the second year, rose during the second half of a Presidency, and reached a peak in the third or fourth year. Bachtel and Fuss (2006) studied partisan politics and stock market performance where they looked at the effect of expected government partisanship on stock returns in the 2002 German federal election. From this study, partisan theory and extant evidence from parties' ideal policies suggest that firms should perform better under right- than under left-leaning governments. From the above review, it is evident that limited research has been done on the effects of election results on stock market performance at the Nairobi Securities Exchange. This study there seeks to fill this research gap by investigating the effects of presidential results on stock market performance using a case of the Nairobi Securities Exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents various stages and phases that were followed in completing the study. In this stage, decisions about how research was going to be executed and how data will be collected, as well as when, where and how the research was to be completed. The following subsections are included; research design, target population, data collection and data analysis.

3.2 Research Design

The study adopted event study methodology. An event study is an analysis of whether there was a statistically significant reaction in financial markets to past occurrences of a given type of event that is hypothesized to affect public firms' market values (Armitage, 1995). The event study design was chosen because the study is concerned with the establishment of the information content of presidential results announcement on share performance at the NSE.

The event that affects a firm's market value may be within the firm's control, such as the event of the announcement of a stock split. Or the event may be outside the firm's control, such as the event of a legislative act being passed, or a regulatory ruling being announced, that will affect the firm's future operations in some way (Armitage, 1995).

3.3 Population and Sample of the Study

Population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. The target population for this study included: companies trading at the Nairobi Security Exchange as at December 31st, 2007 that compute the NSE 20 share Index. Because consolidated data on the variables of the study is available at the NSE, this study conducted a census by including all the members of the population. Because of the small number of firms and the fact that the study used secondary data, the study conducted a census hence there was no sampling.

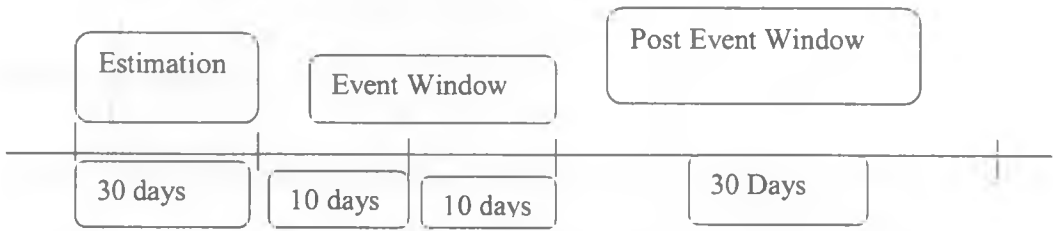
3.4 Data Collection

The study used secondary data from the Nairobi Securities Exchange and the financial statements of the concerned companies. Data was obtained from the NSE covering the period between December 1997 to December 2007.

3.5 Data Analysis

The collected secondary data was coded and entered into Statistical Package for Social Sciences for analysis. The study collected data on NSE 20 share index and market capitalization for NSE for the two general elections results announcement. These dates included 2nd January 1998, 29th December, 2002 and 30th December 2007. The study computed the changes recorded in share prices as measured by the market capitalization and NSE 20 Share index. To arrive at conclusive results, the study compared the

performance of the NSE 20 share index and market capitalization for ten days before and after the announcement of general elections results.



The researcher appraised of the event's impact by measuring the abnormal return 30 days in the estimation window, 10 days immediately before the date of presidential results, the performance of shares on the date the presidential results are announced, 10 days after the announcement of presidential results and thereafter 30 days in the post event window. The study used the market model (MM), which relates the return of any given security to the return of the market portfolio. It involves a series of steps:

The daily returns were calculated for both individual securities as well as Market Index (NSE-20 share index):

$$R_{i,t} = (P_t - P_{t-1})/P_{t-1}$$

Where, $R_{i,t}$ = Returns on Security i on time t ; P_t = Price of the security at time t ; and, P_{t-1} = Price of the security at time $t-1$.

To calculate the Abnormal Returns (AR), the equation as below;

$$AR_{i,t} = R_{i,t} - R_{m,t}$$

Where; $AR_{i,t}$ = Abnormal returns on security i at time t ; $R_{i,t}$ = Actual returns on security i at time t ; and, $R_{m,t}$ = Actual returns on market index. The Average Abnormal Returns was calculated by:

$$AAR_t = 1/n \sum AR_{i,t}$$

Where, AAR_t is the average abnormal returns on day t and $AR_{i,t}$ is the abnormal returns on security i at time t . The Cumulative Abnormal Returns (CAR) was calculated as:

$$CAR_k = \sum AAR_t$$

Where, CAR_k is the cumulative average abnormal returns for the k^{th} period and AAR_t is average abnormal returns at time t . The study also established the significance of the AR_t using t-test.

CHAPTER FOUR

DATA FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the data findings on informational content of general election results announcement on the Nairobi Securities Exchange. These data were collected from the NSE offices and analyzed using SPSS. The study looked specifically at the how the stock market performance perceived the results of the 1997, 2002 and 2007 general election. Abnormal returns of the companies comprising the NSE-20 share index were analyzed; the average abnormal returns (AAR) and cumulative abnormal returns (CAR) were also calculated. The study looked at the 10 day period before and after announcement of the general election results and compared the findings with 30 days period on either side of the event as event period.

4.2 Descriptive Statistics

The study looked at how the Nairobi security exchange has been performing for since the 1997 election year. The NSE-20 share return was studied for a period of year before the 1997 general election to a year after the 2007 elections (Figure 4.1).

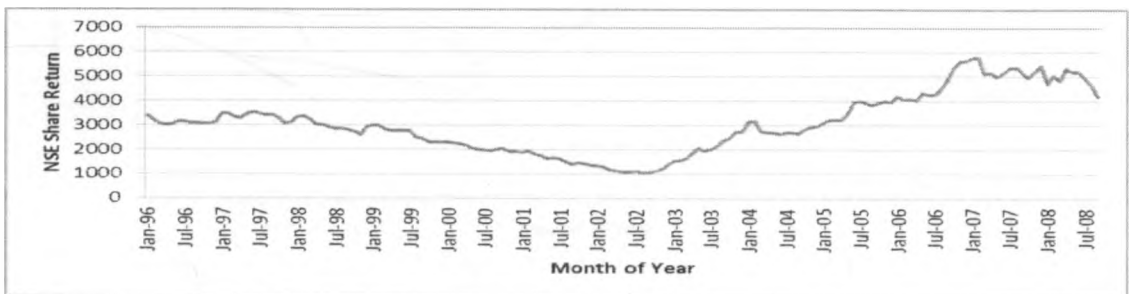


Figure 4.1: NSE-20 Share Performance

The aim of the trendline was to analyze the trend of the stock performance for the intermittent periods before the elections and during the elections. Figure 4.1 shows that the market performance before the 1997 elections was rather constant before receding from the beginning of 1998. That is after elections. The performance started to rise after the 2002 elections results were announced (starting 2003). The performance stagnated between mid-2005 and 2006 ostensibly coinciding with the 2005 referendum. Since then, the performance increased and started declining in January 2007 to January 2008. This could be attributed to the 2007 elections. The performance, however, took a sharp decrease after January 2008 which could be associated with amalgamation of factors such as the post-election crisis and the global economic crisis, especially owing to the sharp increase extending beyond July 2008.

4.3 Stock Performance and 1997 Elections

The study analyzed the security/stock market performance during the 1997 election. The information content of the election results was determined by looking at the returns of the constituent companies that form the NSE-20 share index.

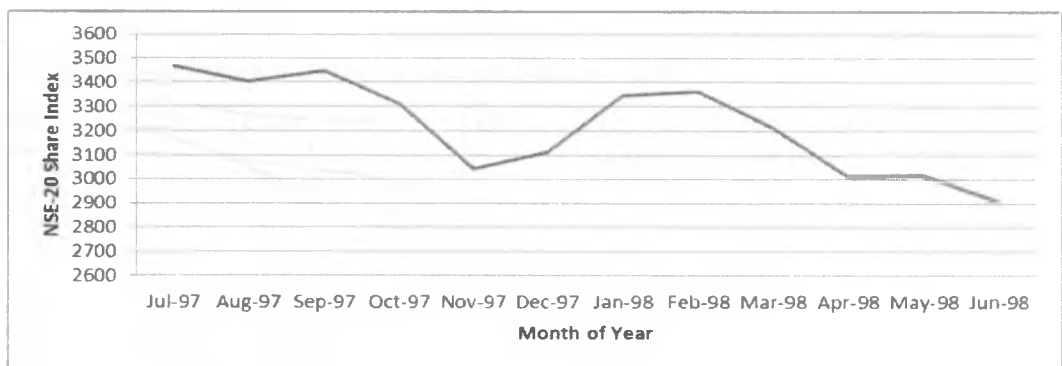


Figure 4.2: NSE-20 Share Index Performance 1997 Elections

Figure 4.2, presenting the NSE-20 share index performance between mid 1997 and 1998, shows that stock market performance generally declined to November of the same year before rising till beginning of January. The stock performance since then decline sharply till mid 1998. This could depicts bad information content was read from the 1997 election as most investors shyied from trading while some sold ther portfolio owing to ucertainty of the outcoem of the ellection. This rose before declining after the re-election of the incumbent President Moi.

4.3.1 Abnormal Return

The study conducted a one sample t-test to determine whether the stocks' abnormal return were significantly different from zero (0) or whether the observed difference was due to sampling error:

H_0 : There is no significant difference of observed mean from hypothesized 0 (no abnormality return)

H_A : There is significant difference of observed mean from hypothesized 0 (abnormality return)

Table 4.1: Significance of the Abnormal Return - 1997

Day	AAR	CAR	t	df	Sig. (2-tailed)	Mean Difference
-t40	-0.0007	-0.0007	-.152	19	.881	-.0007
-t39	-0.0044	-0.0051	-1.423	19	.177	-.0044
-t38	0.0091	0.0040	1.181	19	.257	.0091
-t37	0.0011	0.0051	.193	19	.850	.0011
-t36	-0.0148	-0.0096	-3.709	19	.002	-.0148
-t35	0.0019	-0.0077	.324	19	.751	.0019
-t34	-0.0010	-0.0087	-.169	19	.868	-.0010
-t33	0.0062	-0.0024	.906	19	.381	.0062
-t32	-0.0029	-0.0054	-.452	19	.658	-.0029

-t31	-0.0012	-0.0065	-.171	19	.867	-.0012
-t30	0.0018	-0.0048	.320	19	.753	.0018
-t29	-0.0132	-0.0179	-2.369	19	.033	-.0132
-t28	0.0020	-0.0159	.256	19	.802	.0020
-t27	-0.0011	-0.0170	-.303	19	.767	-.0011
-t26	-0.0113	-0.0283	-1.253	19	.231	-.0113
-t25	-0.0039	-0.0322	-.492	19	.630	-.0039
-t24	0.0090	-0.0232	1.790	19	.095	.0090
-t23	0.0129	-0.0103	1.582	19	.136	.0129
-t22	0.0002	-0.0101	.047	19	.964	.0002
-t21	0.0041	-0.0060	1.981	19	.068	.0041
-t20	0.0052	-0.0008	.858	19	.405	.0052
-t19	0.0024	0.0016	.601	19	.557	.0024
-t18	-0.0022	-0.0006	-.673	19	.512	-.0022
-t17	0.0023	0.0017	.470	19	.645	.0023
-t16	0.0130	0.0147	1.046	19	.313	.0130
-t15	-0.0115	0.0031	-2.014	19	.064	-.0115
-t14	-0.0042	-0.0011	-.732	19	.476	-.0042
-t13	0.0023	0.0012	.606	19	.554	.0023
-t12	0.0043	0.0055	1.011	19	.329	.0043
-t11	-0.0037	0.0019	-.812	19	.430	-.0037
-t10	0.0087	0.0106	1.252	19	.231	.0087
-t9	-0.0026	0.0080	-.717	19	.485	-.0026
-t8	0.0007	0.0087	.097	19	.924	.0007
-t7	-0.0053	0.0034	-1.247	19	.233	-.0053
-t6	-0.0068	-0.0033	-.699	19	.496	-.0068
-t5	0.0042	0.0008	.508	19	.620	.0042
-t4	-0.0007	0.0001	-.101	19	.921	-.0007
-t3	0.0089	0.0090	1.648	19	.122	.0089
-t2	0.0025	0.0114	.397	19	.697	.0025
-t1	-0.0153	-0.0039	-2.975	19	.010	-.0153
t1	0.0067	0.0028	.795	19	.440	.0067
t2	-0.0144	-0.0116	-1.534	19	.147	-.0144
t3	0.0011	-0.0105	.103	19	.920	.0011
t4	0.0286	0.0181	2.009	19	.064	.0286
t5	-0.0051	0.0130	-.560	19	.584	-.0051
t6	-0.0065	0.0066	-.644	19	.530	-.0065
t7	0.0011	0.0076	.093	19	.928	.0011
t8	0.0075	0.0151	.827	19	.422	.0075
t9	-0.0005	0.0146	-.062	19	.952	-.0005
t10	-0.0097	0.0049	-.918	19	.374	-.0097
t11	0.0049	0.0098	.468	19	.647	.0049
t12	-0.0031	0.0067	-.325	19	.750	-.0031
t13	0.0019	0.0086	.273	19	.789	.0019
t14	-0.0120	-0.0034	-1.844	19	.086	-.0120

t15	0.0018	-0.0017	.244	19	.811	.0018
t16	0.0031	0.0015	.402	19	.694	.0031
t17	-0.0085	-0.0071	-1.021	19	.325	-.0085
t18	-0.0073	-0.0144	-.790	19	.442	-.0073
t19	0.0028	-0.0116	.402	19	.694	.0028
t20	-0.0123	-0.0239	-1.414	19	.179	-.0123
t21	0.0223	-0.0015	1.735	19	.105	.0223
t22	0.0032	0.0017	.675	19	.511	.0032
t23	0.0062	0.0079	.606	19	.554	.0062
t24	0.0000	0.0079	-.003	19	.998	.0000
t25	-0.0024	0.0056	-.573	19	.576	-.0024
t26	-0.0025	0.0031	-.509	19	.619	-.0025
t27	0.0006	0.0037	.180	19	.859	.0006
t28	-0.0047	-0.0009	-.773	19	.452	-.0047
t29	-0.0034	-0.0043	-.665	19	.517	-.0034
t30	-0.0038	-0.0081	-.584	19	.569	-.0038
t31	-0.0050	-0.0131	-.854	19	.408	-.0050
t32	0.0045	-0.0086	.791	19	.442	.0045
t33	-0.0002	-0.0088	-.021	19	.983	-.0002
t34	0.0038	-0.0050	.530	19	.604	.0038
t35	-0.0057	-0.0107	-.746	19	.468	-.0057
t36	0.0036	-0.0070	.926	19	.370	.0036
t37	-0.0017	-0.0087	-.311	19	.761	-.0017
t38	0.0029	-0.0058	.270	19	.791	.0029
t39	-0.0039	-0.0097	-1.246	19	.233	-.0039
t40	0.0103	0.0006	2.141	19	.050	.0103

Before elections, Table 4.1 presents significant t-test on t-36 ($p=.002$), t-29 ($p=.033$) and t-1 ($p=0.01$) at 95% significance level. After elections, significant results were established on t40 ($p=.05$). This depicts that before announcement of election results, no investor could gain by trading share. However, after announcements, gains were registered in virtually all the event days.

4.3.2 Average Abnormal Returns

The study also evaluated the average and cumulative abnormal return of the companies constituting the calculation of the NSE-20 Share Index.

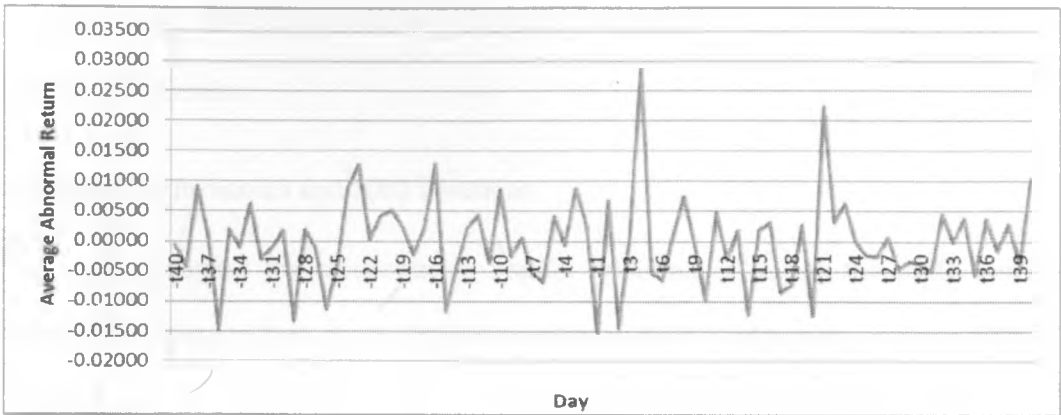


Figure 4.3: Average Abnormal Returns - 1997

Figure 4.3 shows that the share performance, as indicated by the average abnormal return, of the 20 companies constituting the NSE-20 Share Index was very erratic and mostly negative before the election results announcements. After the results announcements, the abnormal returns increased sharply within the fourth and twenty first day.

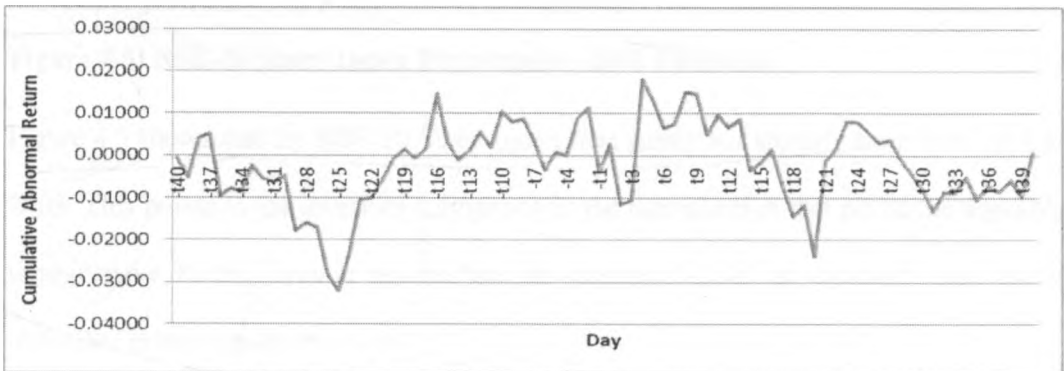


Figure 4.4: Cumulative Abnormal Returns - 1997

Figure 4.4 illustrates that the cumulative stock returns in increasing declined from t-40 to t-25 before steadily increasing to t-16 before stagnating till the election date. The cumullative performance declined after the election result announcement till the

nineteenth day after announcement. This was followed by a sharp increase before a steady fall thereafter.

4.4 Stock Performance and 2002 Elections

The study analyzed the security/stock market performance during the 2002 election period by looking at both the individual companies share performance and the NSE-20 Share Index.

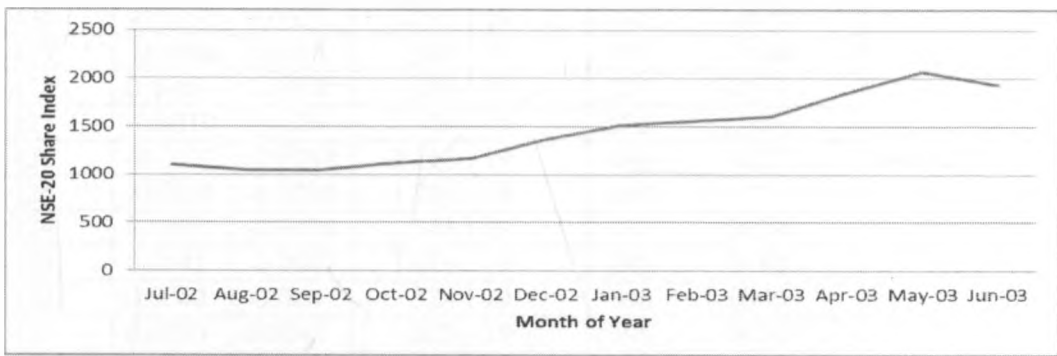


Figure 4.5: NSE-20 Share Index Performance 2002 Elections

Figure 4.5 shows that the NSE-20 Share Index rose gently but steadily from mid-2002 to 2003. This points to the investors confidence in the then election that pitted the arguably retrogressive KANU regime against the pro-reforms NARC government that spread optimism in the investment world.

4.4.1 Abnormal Return

The study conducted a one sample t-test to determine significance of the information content of the 2002 elections.

Table 4.2: Significance of the Abnormal Return - 2002

Day	AAR	CAR	t	df	Sig. (2-tailed)	Mean Difference
-t40	0.0027	0.0027	.729	19	.475	.0027
-t39	-0.0030	-0.0003	-.906	19	.376	-.0030
-t38	0.0058	0.0055	.794	19	.437	.0058
-t37	0.0199	0.0255	1.273	19	.219	.0199
-t36	-0.0223	0.0031	-7.137	19	.000	-.0223
-t35	0.0125	0.0156	1.449	19	.164	.0125
-t34	0.0005	0.0161	.081	19	.936	.0005
-t33	0.0100	0.0261	1.125	19	.275	.0100
-t32	-0.0110	0.0152	-2.215	19	.039	-.0110
-t31	0.0072	0.0223	.821	19	.422	.0072
-t30	-0.0150	0.0073	-.710	19	.487	-.0150
-t29	-0.0040	0.0033	-.362	19	.721	-.0040
-t28	0.0105	0.0138	1.288	19	.213	.0105
-t27	-0.0010	0.0129	-.159	19	.875	-.0010
-t26	-0.0222	-0.0093	-2.115	19	.048	-.0222
-t25	-0.0115	-0.0208	-1.204	19	.243	-.0115
-t24	0.0019	-0.0188	.288	19	.777	.0019
-t23	0.0142	-0.0047	1.816	19	.085	.0142
-t22	0.0040	-0.0007	.524	19	.606	.0040
-t21	0.0050	0.0043	.870	19	.395	.0050
-t20	0.0025	0.0069	.504	19	.620	.0025
-t19	0.0064	0.0132	1.370	19	.187	.0064
-t18	0.0005	0.0138	.196	19	.847	.0005
-t17	0.0144	0.0282	2.358	19	.029	.0144
-t16	0.0060	0.0342	.648	19	.525	.0060
-t15	-0.0149	0.0193	-3.520	19	.002	-.0149
-t14	0.0072	0.0265	1.441	19	.166	.0072
-t13	0.0002	0.0267	.054	19	.958	.0002
-t12	0.0012	0.0279	.238	19	.814	.0012
-t11	-0.0032	0.0247	-1.215	19	.239	-.0032
-t10	0.0163	0.0410	2.311	19	.032	.0163
-t9	0.0085	0.0495	1.036	19	.313	.0085
-t8	0.0060	0.0554	.654	19	.521	.0060
-t7	-0.0044	0.0511	-.687	19	.500	-.0044
-t6	-0.0003	0.0508	-.031	19	.976	-.0003
-t5	0.0017	0.0525	.228	19	.822	.0017
-t4	-0.0130	0.0395	-1.876	19	.076	-.0130
-t3	0.0076	0.0471	1.136	19	.270	.0076
-t2	0.0047	0.0518	.710	19	.486	.0047
-t1	-0.0154	0.0364	-6.005	19	.000	-.0154
t1	0.0101	0.0465	1.452	19	.163	.0101

t2	-0.0140	0.0325	-1.495	19	.151	-.0140
t3	0.0005	0.0330	.070	19	.945	.0005
t4	0.0556	0.0886	4.421	19	.000	.0556
t5	-0.0043	0.0843	-.395	19	.697	-.0043
t6	-0.0124	0.0719	-1.049	19	.307	-.0124
t7	0.0170	0.0889	1.477	19	.156	.0170
t8	0.0064	0.0953	.542	19	.594	.0064
t9	0.0067	0.1020	.640	19	.530	.0067
t10	-0.0035	0.0986	-.274	19	.787	-.0035
t11	0.0012	0.0997	.118	19	.907	.0012
t12	0.0020	0.1017	.219	19	.829	.0020
t13	-0.0039	0.0978	-.459	19	.651	-.0039
t14	-0.0024	0.0954	-.326	19	.748	-.0024
t15	-0.0048	0.0906	-.458	19	.652	-.0048
t16	0.0002	0.0908	.032	19	.975	.0002
t17	-0.0028	0.0880	-.367	19	.717	-.0028
t18	-0.0027	0.0853	-.540	19	.595	-.0027
t19	-0.0033	0.0819	-.409	19	.687	-.0033
t20	-0.0022	0.0797	-.320	19	.752	-.0022
t21	0.0345	0.1142	4.576	19	.000	.0345
t22	0.0009	0.1151	.280	19	.783	.0009
t23	-0.0013	0.1138	-.182	19	.857	-.0013
t24	-0.0016	0.1122	-.195	19	.848	-.0016
t25	-0.0010	0.1112	-.245	19	.809	-.0010
t26	-0.0003	0.1109	-.065	19	.949	-.0003
t27	-0.0005	0.1104	-.179	19	.860	-.0005
t28	-0.0020	0.1084	-.471	19	.643	-.0020
t29	-0.0006	0.1079	-.117	19	.908	-.0006
t30	0.0008	0.1087	.112	19	.912	.0008
t31	0.0016	0.1103	.255	19	.801	.0016
t32	0.0023	0.1126	.681	19	.504	.0023
t33	-0.0037	0.1089	-.560	19	.582	-.0037
t34	-0.0058	0.1031	-.640	19	.530	-.0058
t35	-0.0013	0.1019	-.251	19	.805	-.0013
t36	-0.0013	0.1006	-.329	19	.746	-.0013
t37	-0.0007	0.1000	-.104	19	.919	-.0007
t38	-0.0011	0.0989	-.126	19	.901	-.0011
t39	0.0020	0.1009	.186	19	.854	.0020
t40	0.0017	0.1027	.294	19	.772	.0017

Table 4.2 illustrates that significant t-test results were established on t-36 ($p<.001$), t-32 ($p=.039$), t-26 ($p=.048$), t-17($p=.029$), t-15($.002$), t-10($.032$), and t-1($p<0.001$) at 95% significance level. After elections, significant results were established on t4 ($p<.001$),

t21(p<.001). This depicts that before announcement of election results, no investor could gain by trading share for the days indicated.

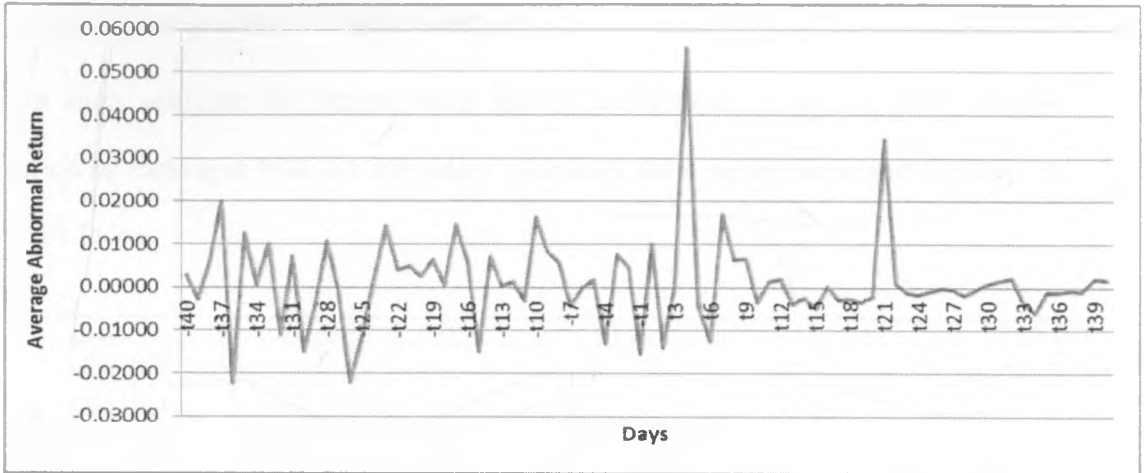


Figure 4.6: Average Abnormal Returns - 2002

Figure 4.6 shows that the average abnormal return of the 20 companies was very erratic before the election results announcements. After the results announcements, the abnormal returns increased sharply within the third and twenty second day and smoothed thereafter.

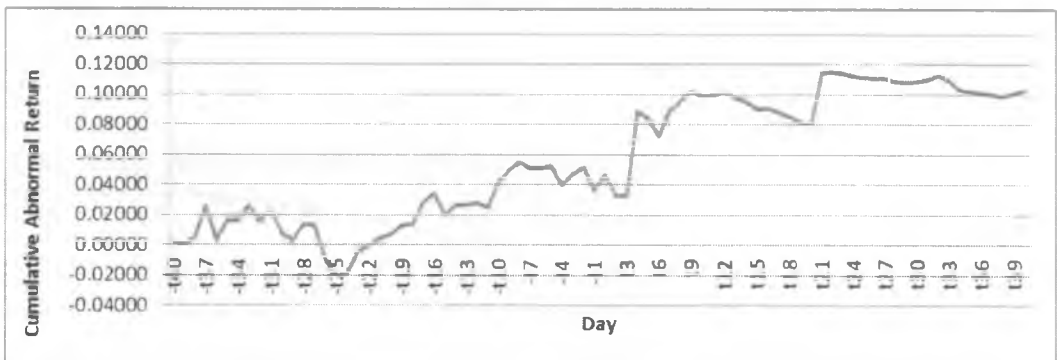


Figure 4.7: Cumulative Abnormal Returns - 2002

Figure 4.7 illustrates that the cumulative stock returns increased from t-23 to t10 before averagely stagnating after the election announcement.

4.5 Stock Performance and 2007 Elections

The study analyzed the security/stock market performance during the 2007 election period by looking at both the individual companies share performance and the NSE-20 Share Index.

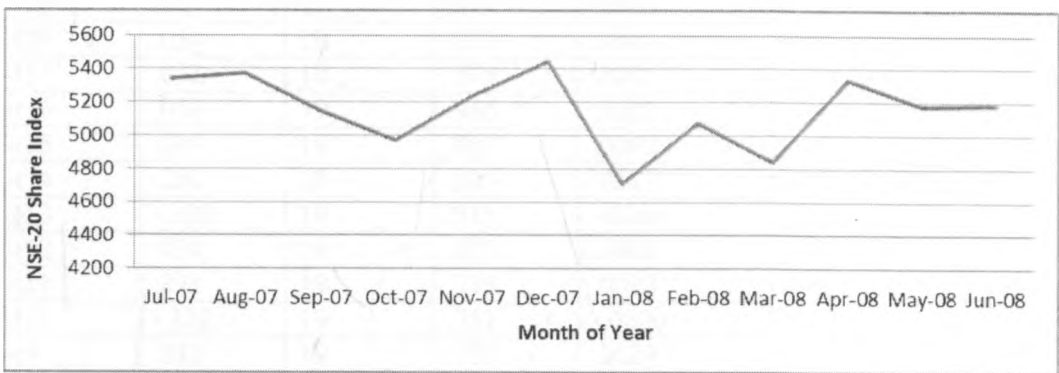


Figure 4.8: NSE-20 Share Index Performance 2007 Elections

Figure 4.8 illustrates that the NSE-20 share performance was erratic, though, receding on average. The decline was more accentuated between the months of December and January 2008.

Table 4.3: Significance of the Abnormal Return - 2007

Day	t	df	Sig. (2-tailed)	Mean Difference
-t40	.482	19	.635	.0019
-t39	.681	19	.504	.0019
-t38	.166	19	.870	.0006
-t37	.516	19	.612	.0026
-t36	.406	19	.689	.0015
-t35	.177	19	.861	.0006
-t34	.411	19	.685	.0021
-t33	-.047	19	.963	-.0002

-t32	-.944	19	.357	-.0324
-t31	.034	19	.973	.0002
-t30	-.421	19	.679	-.0021
-t29	-.349	19	.731	-.0017
-t28	.050	19	.961	.0003
-t27	.291	19	.775	.0011
-t26	-.283	19	.780	-.0008
-t25	-.431	19	.671	-.0017
-t24	-.101	19	.921	-.0006
-t23	.601	19	.555	.0030
-t22	.036	19	.972	.0001
-t21	-.139	19	.891	-.0004
-t20	.153	19	.880	.0006
-t19	.164	19	.871	.0006
-t18	.034	19	.973	.0001
-t17	.032	19	.975	.0001
-t16	.056	19	.956	.0003
-t15	.039	19	.969	.0002
-t14	.250	19	.805	.0011
-t13	-.108	19	.915	-.0006
-t12	.034	19	.973	.0001
-t11	.371	19	.715	.0022
-t10	-.322	19	.751	-.0020
-t9	.632	19	.535	.0029
-t8	-.501	19	.622	-.0021
-t7	.051	19	.960	.0003
-t6	.032	19	.975	.0001
-t5	.031	19	.976	.0001
-t4	.074	19	.942	.0006
-t3	.031	19	.976	.0001
-t2	.021	19	.984	.0000
-t1	.058	19	.954	.0004
t1	.163	19	.872	.0011
t2	-.117	19	.908	-.0008
t3	.164	19	.872	.0013
t4	.082	19	.936	.0008
t5	.050	19	.961	.0003
t6	.053	19	.959	.0003
t7	.195	19	.847	.0013
t8	-.154	19	.879	-.0007
t9	.047	19	.963	.0002
t10	.064	19	.950	.0004
t11	-.091	19	.928	-.0003
t12	.152	19	.881	.0006
t13	.056	19	.956	.0003

t14	.045	19	.964	.0002
t15	.039	19	.969	.0002
t16	.050	19	.961	.0003
t17	.067	19	.948	.0004
t18	.078	19	.939	.0007
t19	.036	19	.972	.0001
t20	-1.770	19	.093	-.0091
t21	.066	19	.948	.0004
t22	.060	19	.953	.0004
t23	.058	19	.954	.0003
t24	.045	19	.964	.0002
t25	.033	19	.974	.0001
t26	.045	19	.965	.0002
t27	.044	19	.965	.0002
t28	.052	19	.959	.0003
t29	.044	19	.965	.0002
t30	.041	19	.968	.0002
t31	.033	19	.974	.0001
t32	.042	19	.967	.0002
t33	.058	19	.954	.0004
t34	.042	19	.967	.0002
t35	.059	19	.953	.0004
t36	.032	19	.975	.0001
t37	.038	19	.970	.0002
t38	.033	19	.974	.0001
t39	.023	19	.982	.0001
t40	.055	19	.957	.0003

Table 4.3 illustrates that there was no significant results for the event period under investigation. This is attributable to the lack of investors' confidence and low activity owing to the much polarized election.

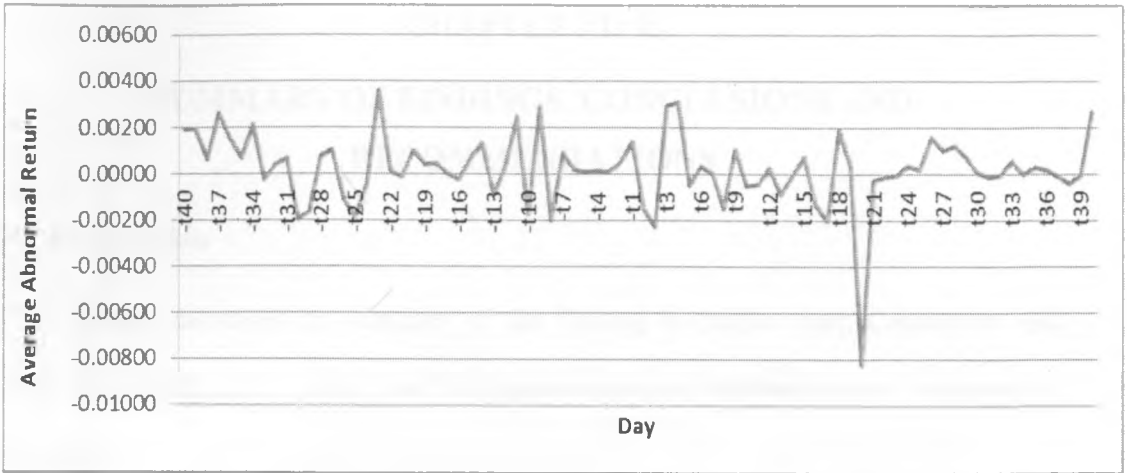


Figure 4.9: Average Abnormal Returns – 2007

Figure 4.9 shows that the average abnormal return of the 20 companies was highly varied before and after the election results announcements.

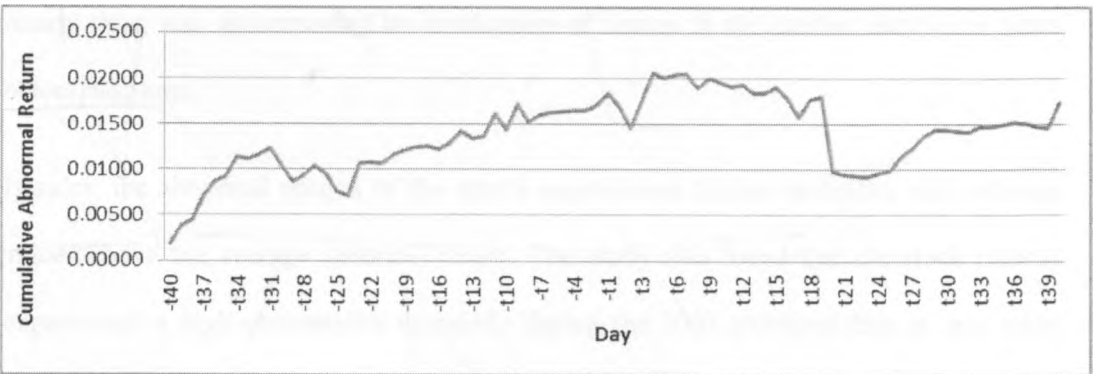


Figure 4.10: Cumulative Abnormal Returns - 2007

Figure 4.10 illustrates that the cumulative stock returns increased before stagnating after the elections, before stagnating on the 21 day after announcement.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the finding in chapter four. Conclusion and recommendations drawn from these findings are discussed in relation to the objectives of the study.

5.2 Summary

The study established the stocks had experienced mostly negative average abnormal returns. This depicts that the elections were generally associated with negative abnormal return; thus, was accompanied by devaluation of shares in the market relative to years before elections.

Besides, the abnormal returns of the stocks experienced higher variability and extreme values above the average abnormal return. The study also found that the stock returns experienced a high abnormality especially during the 2007 elections than in any other election. Thus, investors generally either benefited or lost by trading in stocks within this period. However, the 2002 elections had good information content as this information was captured well in the stocks resulting in significant abnormal returns (not significantly different from 0). .

The study further established that the cumulative returns exhibited a steadily increasing trend up to about the 20 day after election result announcement, especially during the 2002 election then, increased steadily but at lower rate thereafter. This owes to absorption

of the information into the stock prices with investors benefiting infinitesimally from the public information.

5.3 Conclusions and Recommendations

From the findings, it is concluded that market reaction to election announcements is highly negative or positive depending on the election at hand. For example, during the 2007 elections, the market performed poorly as the highly ethnic polarized election was interpreted by market investors as bad. The magnitude of this negative reaction (abnormal return = -0.00148) in the first day of trading after announcement suggests that this event although statistically insignificant ($p=.872$), but economically significant.

Hence the information made by election announcements is useful for valuing the securities though the market do not value the information contained in a professional election such as the one in 2002. The average cumulative abnormal returns exhibited a reducing trend in the periods preceding announcement and a slower increase after announcement pointing to market absorption of the information in the long run period after the announcement.

5.4 Limitations of the Study

The election announcements may have been affected by other market anomalies such as the weekend and Monday effect. Macroeconomic performance such as inflation and shilling depreciation might have also moderated the effect of these events (announcement). Unfortunately, these moderating factors could not be isolated in the study owing to difficulty in doing so.

5.5 Areas for Further Studies

The study recommends that a similar study can be done on regulatory measures such as changes in the t-cycles and corporate actions such as like merger and acquisitions, stock splits. Other studies can also be done on the information content of the 2010 referendum.

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