Irrational influence on initial public offering Investment; a survey of Siaya institute of technology Teachers (Kenya)

Ojw Ang' George Omondi

ABSTRACT
Societies are organized around the assumption that human beings are perfectly rational in their decision making process. The context in which people make decisions has a significant influence just as the choice itself. This research aimed at identifying irrational factors that influence initial public offering (IPOs) investment decisions by teachers of Siaya Institute of Technology. To achieve this objective, the research adopted a descriptive cross-sectional survey design collecting data from 104 participants through drop and pick later questionnaires. Finance theory is premised on the assumption that market agents behave rationally but this is not always the case as is evidenced in market uncertainties of low/high responsiveness of price to new information, excessive volumes traded, under reaction over reaction of market participants and excessive volatility prevalent in financial markets. This scenario points to some forces other than economic determinants influencing investors' decision making processes. In our decision making process, human beings are influenced by framing and social context. Policy makers need to focus their attention on how physical and social environments shape choice patterns which calls for policies informed by realistic human decision making process. Irrational influences on investment are psychological traits affecting investment returns of risky assets as well as volatility of asset returns as a consequence of noise in their information. Investment choices are motivated by factors other than prices: social norms, habits, formal and informal authority, non-monetary incentives, community expectations and the way choices are presented. Rationality therefore denotes making understandable choices in terms that accord with reason and logic. Research findings reveal that for teachers of Siaya Institute of Technology, trading within the capital markets is hardly based on fundamental analysis which analyzes quality of firm products, firm corporate social responsibility, firm manager expertise and perceived ethics of the company but rather on technical analysis. The teachers act irrationally by holding onto losing stock for fear of receiving negative returns, have little information on market trends, are risk averse and believe in holding superior portfolios. This is also due to their optimism/pessimism bias and the fact that they are privately informed by their workmates and social group. They are also influenced by media news releases, regular broker recommendations, family members' purchase approval and social group popular opinion in their portfolio selection.