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Effect of Lifestyle Characteristics on Individual Portfolio Choice in Respect to Common Stocks at the Nairobi Securities Exchange, Kenya

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ABSTRACT

Lifestyle characteristics plays a major role of determining a portfolio choice of an investment portfolio composed of a single or multiple assets that an investor chooses within a certain period of time. The objective of this study was to assess the effect of investor's lifestyle characteristics on individual portfolio choice at the Nairobi securities exchange and to investigate the moderating effect of investor's age on the correlation between lifestyle characteristics and individual portfolio choice on common stocks at the Nairobi securities exchange. A correlational research design was used for collecting data for the variables under study over a period of five years from January, 2013 to December, 2017.The population consisted of individual investors estimated at 2.4 million as at 31st December 2017 based on Central Depository and Settlement Corporation Limited (CDSC).A target population of 997,605 active retail investors who also form the accessible population at Nairobi securities exchange(NSE) were used to draw a sample size of 385 active individual retail investors. Both stratified and convenience sampling was used to select the required number of respondents. A structured questionnaire was used to collect the data whereby drop and pick approach was used by the researcher and research assistants. Pilot testing of the instruments was performed to assess its reliability. Further, multiple regression techniques were used to analyze the data obtained that was presented using frequency tables, means, standard deviations and correlation tables. The study findings revealed that lifestyle characteristics have a positive and significant effect on individual portfolio choice in respect to common stocks at NSE, Kenya. As such a unit increase in a predictor variable leads to an increase in investment in common stocks. Further, the results of the study indicated that age moderate the relationship between lifestyle characteristics and the individual portfolio choice in respect to common stocks. The study will benefit management of investment banks and brokerage firms in policy formulation to assist individual investors in their portfolio choices and also to the academicians to advance the conceptual arguments of the moderating effect of age on the relationship between lifestyle characteristics and individual portfolio choice in respect to common stocks at NSE, Kenya.

Keywords: *Lifestyle characteristics, Individual portfolio choice, Investor's age, common stocks.*

INTRODUCTION

Individual portfolio choice is the results of the process of investing one's funds in different investment opportunities, asset classes and markets that have low, negative, positive or possibly no correlation between their choices, that will earn the total return over time that one needs (Reilly and Brown, 2012). A portfolio refers to a collection of investment or financial assets held by an individual, investment company, financial institution or hedge fund. An ideal portfolio choice is the mix of investment, from the most aggressive to the safest that will earn the total return over time that one needs. The mixes include stocks, bonds, and money market securities. The percentage of one's portfolio that one devotes to each depends on one's time frame and one's tolerance for risk. According to Markowitz (1952), one optimizes expected returns based on the level of market risk upon a construction of an investment portfolio chosen. Accordingly, by combining various asset classes into a portfolio, overall

portfolio risk can be minimized and higher return can be achieved than with a portfolio that is not properly optimized. The investment of the portfolio chosen with the largest portfolio return is usually prioritized (Hatemi& El-Khatib, 2014). There are wide-ranging factors that influence individual portfolio choice which may include lifestyle characteristics and investor's age that have influential implications.

The lifestyle of investors can be determined by studying the activities, interest and opinion of investors (Panjali & Kasilingam, 2015). Investor's lifestyle characteristics have assumed diversified approaches depending on different researchers in past studies. There has been no universally accepted operationalization of this variable. For instance, Varadharajan and Vikkraman (2014) in their study expressed investor lifestyle characteristics by demonstrating the approach an investor uses to be guided on how to invest. In their study, they found that an investor decides on an investment after getting opinion from family, friends and colleagues, broker's recommendation and also other professional advice. The investor also takes into consideration the market situations like financial results of the companies, bonus issue, price earnings ratio and the reputation of the company. The intermediaries and capital market operators need to know the lifestyle of investor to design better instruments so as to be successful.

Literature Review

Lifestyle Characteristics and Individual Portfolio Choice in Respect to Common Stocks at the Nairobi Securities Exchange

The process of classifying investor's lifestyle in some studies were defined or grouped based on the author's criteria used. In the study of Panjali and Kasilingam (2015), they sought to determine the impact of investor lifestyle on their investment behaviour. The analysis of variance shows that occupation influences perfect planning and age and occupation influences leadership and occupation influences risk taking behavior. Lifestyle is an important factor which influences the investment behaviour of people.

Sultana and Pardhasaradhi (2012) carried out a survey on factors influencing Indian individual equity investors' decision-making and investor behaviour. The results showed that 42% of the investors' stock purchases were influenced by accounting information of the company while 37% of them were influenced by personal and financial needs. The rest of the investors were influenced by information related to recommendation of friends/peer group or broker advice, firm image of the company and natural or general information of the company relatively. This study focused on the nature of information the investor relied upon to make asset allocation decisions but did not demonstrate the level of performance of such securities per individual investor. Again, the study was silent on the type of securities the investors invested in. This study aims at determining the influence of lifestyle characteristics of the investor with specific focus on religious expressive characteristics socially expressive characteristics, firm's reputation in industry and contribution of firms in social causes on individual portfolio choice in respect to common stocks. By use of a composite score for lifestyle characteristics, the study will establish the influence of this explainer on individual portfolio choice at the Nairobi securities exchange.

In the study of Panjali and Kasilingam (2015), link between investor lifestyle on their investment behaviour was ambiguous and no clear indication of whether the lifestyle characteristics significantly influenced the individual portfolio choice. The author should have integrated lifestyle characteristics on personal ability, confidence level and dependency level of an investor to ensure comprehensive link of lifestyle characteristic with individual portfolio choice is established. This study will endeavor to fill that knowledge gap.

In overall, the studies carried out by Sultana & Pardhasaradhi, (2012); Varadharajan & Vikkraman, (2014) and Panjali & Kasilingam, (2015), the focus was on the extent to which investor lifestyle influence investor behaviour during investment process.

Investor's Age and Individual Portfolio Choice at the Nairobi Securities Exchange

Behavioral finance literatures have endeavored to examine whether investor's age influence investor behavior with less focus on whether it influences individual portfolio choice. However, researchers have used diverse conceptual approaches with a purpose of achieving their objectives.

Hakan, Selin, Mehmet and Azize (2011) investigated adaptive and maladaptive effects of certain demographic variables (age, gender, education and marital status) and trading strategies (portfolio value, turnover ratio, investment period, consulting advice, number of stocks in the portfolio, percentage of stock investment) on trading performance of individual investors.

The findings suggest that in general, investors who had less amounts of portfolio value and turnover rates, had a tendency to outperform the market and thus exhibit superior performance. Moreover, the study revealed that the investors who outperformed the market are the ones who were highly educated, relying on the recommendations of experts and on the side of gender, women performed better than men.

To measure portfolio performance of individual investors, the study compared individual portfolio performance level and that of the market so as to classify it as outperforming or underperforming. This study will further consider other investor profile aspects such as lifestyle characteristics, to establish the extent to which they influence individual portfolio choice.

Fatima and Shafi (2016) sought to determine the impact of demographic factors on investment behavior. The results depict that age and occupation has significant impact on the investment decision making of the investors of Kashmir while gender and marital status did not exhibit any significant relation with the investment behavior.

There exists a research gap to establish the extent to which diverse retail investor profile influence individual portfolio choice. The study by Fatima and Shafi (2016) delineated investment behaviour and demographic characteristics whereas the current study will consider the two categories of variables as investor profile (independent variable) and regress them against individual portfolio choice which will assume the dependent variable.

Barber and Odean (2001) investigated the influence of age on performance of common stock investments. A sample of 35,000 households holding common stocks were used for the study. Concerning age of households, the findings revealed that young investors hold more volatile portfolios and their average monthly turnover declines as age increases. It further reported that these differences are more pronounced between single men and women. Single men trade 67 % more than single women and earn annual risk-adjusted net returns that are 2.3 % less than those earned by single women. Additionally, married women earned a stock market annual risk-adjusted net return 1.4 % more than married men.

The objective of this study was to identify those aspects of investors' trading strategies and their demographic variables which appear to account for the differences in trading returns. It was presumed that demographic characteristics of the individual investor will have predictive effects on the investor portfolio choice. There exists a knowledge gap to establish whether age as a moderator associate with individual portfolio choice.

Problem Formulation

These studies have demonstrated that age influence the investor behavior. Nevertheless, the mentioned studies did not investigate the extent to which investor's age moderate the relationship between lifestyle characteristics and individual portfolio choice in respect to common stocks. The afore mentioned studies were bivariate, for they considered the relationship between the explanatory and response variables without considering the moderating effect some of those variables may have on the model. This study will incorporate a multiple regression model to comprehensively establish the moderating effect of investor's ageon the relationship between lifestyle characteristics and individual portfolio choice on common stocks at NSE, Kenya.

There is a knowledge gap to find out whether such investor lifestyle characteristics are value adding to the investor by incorporating the individual portfolio choice perspective. This study will delineate investor lifestyle characteristics and investor behaviour and instead determine how the lifestyle characteristics influence individual portfolio choice.

Research Methodology

Research Design

This study sort to establish the effect of lifestyle characteristics on individual portfolio choice at NSE. The study used quantitative structured

research design for collecting data for the variables under study. The individual investors used data for a five-year period from January, 2013 to December, 2017. Houser (2011) notes that it is designed to provide in-depth information about the characteristics of subjects within a particular field of study, thus, it can help identify relationships between variables.

Sample Size and Sampling Technique

A sample is a collection of units chosen from the universe to represent it (Kombo and Tromp 2009). The study used both stratified and convenience sampling. The NSE had 62 companies who were registered to trade at the exchange at the time. It was through stock brokerage/ investment firm that investor's trade at these companies.

There were 19 stock brokerage/investment firms existing at the Nairobi Securities Exchange at the time and therefore form the target population as well as the sample of this study. The study first adopted the strata made up of the 19 stock brokerage firms and used the proportion of the active retail investors in each stratum to arrive at the sample size of individual investors for each brokerage firm.

Subsequently, convenience sampling was used to select samples from every stratum which have the required investor attributes, namely, active that is, they have been trading at the NSE during the year, and have an asset portfolio of one or more portfolio of assets.

Individually, using simple random sampling the researcher through the brokerage firm identified a retail investor and ascertains that the investor has the right attributes. Using this procedure, the researcher approached all the targeted active retail investors through the brokerage firms' management as given to each brokerage firm.

Research Instruments

The study used a structured questionnaire. The study collected the secondary data utilizing quantitative data. In this study the quantitative data was obtained from general information, lifestyle characteristics, investor's age and on individual portfolio choice. The questionnaire was designed to address specific objectives, research questions and test hypothesis.

This study used a 5-point Likert scale to measure the lifestyle characteristics and individual portfolio choice. The Likert scale, which is essentially an interval scale, is designed to examine how strongly subjects agree or disagree with a statement (Sekaran & Bougie, 2010). Kothari (2009) explains that 5-point Likert scales are used because they are more reliable and can provide more information.

Research Findings and Discussion

Response Rate

Questionnaires were administered to a total of 385 investors. Out of these 320 were dully completed and returned. On the other hand, 35questionnaires were not returned. Finally, 30 questionnaires that had been filled and returned had gaps, omissions and/or errors. This set of questionnaires were disqualified and therefore excluded from the respondents.

The response rate of those that were dully filled and returned of 83.1% was considered good and representative and conforms to Mugenda and Mugenda (2009) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The 83.1% is therefore considered a high response rate. The response rate for this study is as shown in table 4.1 below.

Table 4.1 *Response rate for the questionnaires*

Response	Frequency	Percentage
Dully filled and returned	320	83.1%
Not returned	35	9.1%
Disqualified questionnaires	30	7.8%
Total	**385**	**100%**

Source: *Survey Data (2022)*

Lifestyle Characteristics

The study sought to determine the opinion of respondents on lifestyle characteristics when investing. Using the 5 point Likert-scale range the results are presented in Table 4.2

Table 4.2 *Lifestyle characteristics*

	SD	D	N	A	SA	Mean	STD
I always have a clear focus on the amount of money to invest in a particular security (s)	1.3	12.2	19.1	43.4	24.1	3.77	.990
I continuously assess possibilities of winning or losing in a particular portfolio and confidently adopt the appropriate asset allocation strategy.	1.3	3.4	22.2	50.0	23.1	3.90	.834
Most of the times I guide my broker on how to spread my assets to minimize risk of financial losses.	6.3	15.3	20.6	36.2	21.6	3.52	1.169
I fully believe and accept the Brokers Recommendations on which securities to invest in.	3.1	13.4	24.1	42.2	17.2	3.57	1.024
I always get a second opinion from family members on the time and the type of securities to invest in.	10.9	27.8	20.9	33.8	6.6	2.97	1.148
Before I invest in any security, I have to discuss with well-informed friends or relatives to minimize losses	16.1	26.3	23.4	24.9	12.2	2.88	1.268
Valid List wise =320							

Source: *Survey Data (2022)*

Table 4.2 shows how respondents rated various items of the lifestyle characteristics. When respondents were asked if they always have a clear focus on the amo. oney to invest in a particular security (s), most respondents agreed (A) with 43.5% and having a mean = 4.01 and SD=0.990. When respondents were asked whether they continuously assess possibilities of winning or losing in a particular portfolio and confidently adopt the appropriate asset allocation strategy. Most respondents agreed (A) with 50.0% (Mean=3.90, SD=0.834). Other items include; "Most of the times I guide my broker on how to spread my assets to minimize risk of financial losses" agreeing (A) with 36.2% (Mean=3.52, SD=1.169), I fully believe and accept the Brokers Recommendations on which securities to invest in" Agreeing (A) with 42.2% (Mean=3.57, SD=0.1.024).

"I always get a second opinion from family members on the time and the type of securities to invest in" was rated agree (A) with 33.8% (Mean=2.97, SD=1.148) However, the statement whether the respondents discuss with well-informed friends or relatives before they invest in any security to minimize losses most Disagree(D) that had 26.3%. (Mean=2.88, SD=1.268). On average most respondents Agree (A) that had 38.4% (Mean =3.44, SD=1.072) as shown in Table 4.13. This implies that most investors Agree with the opinions expressed about their lifestyle characteristics when investing at NSE. The mean (3.44) however shows that most investors lie between Neutral and Agree in the opinions about their lifestyle characteristics when choosing to invest at NSE. The study showed that individual investors continuously focus on and asses investments, guide brokers and accept their recommendations as well as consider family members, friends, brokers or relatives views when choosing to invest at NSE. This implies that lifestyle characteristics influence individual portfolio choice. The findings expressed by Iqbal and Usmani (2009) were dissimilar as they found out that recommendations of family members, friends, coworkers go largely unheeded, recommendation of stock brokers are considered.

Age

The study sought to determine the opinion of respondents when investing.Using ratio scale method of measurement, the respondents were required to indicate their age in years within a given range. Table 4.3 shows the age category of the respondents and have been categorized into five sub-groups.

Table 4.3 *Age bracket*

Age	Under 25	Between 25 to 35	Between 35 to 45	Between 45 to 55	Over 55	Mean	SD
Percentage	14.1%	19.4%	30.0%	14.7%	21.9%	3.11	1.331

Source: *Survey Data (2022)*

The results as shown in Table 4.3 above showed that most respondents were aged between 35 and 45 representing 30.0%, 21.9% being over 55years, 19.4% being between 25 and 35 years,

14.7% were between 45and 55 years and 14.1% being under 25 years with a mean of 3.11 and Standard Deviation of 1.331. The group of between the ages of 35 and 45 is usually energetic, very active, is experienced, responsible and has skill as affirmed by Teeples & David (2010). This is followed closely by those of 55years and above of age. This group is mostly those who are done with educating their children and therefore, they have high disposable income for investment. The above implies that age has an influence in the investors behavior.

Individual Portfolio Choice

The study sought to determine the respondent's individual portfolio choice during investment process. The results are presented in Table 4.4

Table 4.4 *Individual portfolio choice on common stocks*

	None	V.Lo	Low	High	V. High	SA	Mean .Dev
The frequency at which I make decisions on investing in common stock	8.1	23.18.	15.0	35.0	18.8	3.33	1.246
The frequency at which I delegate the decision making to my stock broker to invest in common stock	6.6	8.1	17.5	30.6	37.1	3.84	1.200
Valid N (list wise) = 254							

Source: *Survey Data (2022)*

The findings in Table 4.4 revealed that majority of the respondents in all the areas agreed (A) with the statements, that "I occasionally relied on the what other investors tell me" with 128 or 40.0%, that "I purchased the quantity of shares in a random manner or heuristically" with 149 respondents or 46.6%, it was similar to "I have been choosing and investing in securities that have had potential gains than those with perceived losses" with 150 respondents or 46.9% were in agreement. Similarly in agreement was "The choice to invest in is often based on information I know formed the greatest percentage of my investment decisions" with 123 respondents or 38.49%. other areas rated neutral with 110 respondents or 34.4% with the finding that "While choosing investments I relied on the combination of the price and quantity of shares I was able to purchase" and 141 respondents or 44.1% having the findings that "Before I invest in any security, I use my instincts and confidence to choose the security I need to invest in" Before I invest in any security, I use my instincts and confidence to choose the security I need to invest in. On average most respondents Agree at 40.5% (Mean = 3.77, SD = 1.067).

Inferential Statistics of the Study Variables

This entails the individual correlation analysis of the variables, the combined correlation analysis, the multiple regression analysis models and the hypothesis test.

Correlation between Individual Portfolio Choicei Respect to Common Stocks and Lifestyle Characteristics

The correlation between Individual Portfolio in respect to common stocks and Lifestyle Characteristics in NSE was examined and the Pearson correlation results from this study are shown in Table 4.24

Table 4.5 *Pearson Correlation Coefficient between Individual Portfolio Choice in respect to common stocks and Lifestyle characteristics*

Correlations			
Variables	**Coefficient type**	**Common Stock**	**Investor lifestyle**
common Stock	Pearson Correlation	1	.511**
	Sig. (2-tailed)		.000
	N	254	254
investor lifestyle	Pearson Correlation	.511**	1
	Sig. (2-tailed)	.000	
	N	254	254

. Correlation is significant at the 0.01 level (2-tailed).* ***Source: *Survey Data (2022)*

The Correlation Coefficient of the lifestyle characteristics is the composite score of the correlation coefficient value obtained from the means of opinions on personal ability, confidence level, brokers recommendation, family members opinion and those of friends

and relatives of the respondents. This approach was used by Sultana and Pardahsaradhi (2012) using factor analysis, cluster analysis, Chi-square analysis and analysis of variance where it showed that occupation influences perfect planning and age and occupation influences leadership and occupation influences risk taking behavior. Results depicts that there is a positive relationship between Individual Portfolio Choice in respect to common stocks and lifestyle characteristics (r = 511). This implies that lifestyle characteristics positively influence Individual Portfolio Choice in respect to common stocks at the NSE.

Correlation between Individual Portfolio Choice in Respect to Common Stocks and Age

The correlation between Individual Portfolio Choice in respect to common stocks and age at NSE was examined and the Pearson correlation results from this study are as shown in Table 4.6

Table 4.6 *Pearson Correlation Coefficient between Individual Portfolio Choice in respect to common stocks and Age*

Correlations			
Variables	**Coefficient type**	**Common Stock**	**Age**
Common Stock	Pearson Correlation	1	.193**
	Sig. (2-tailed)		.002
	N	254	254
Age	Pearson Correlation	.193**	1
	Sig. (2-tailed)	.002	
	N	254	254

. Correlation is significant at the 0.01 level (2-tailed).* ***Source: *Survey Data (2022)*

It is also evident from the results that there is positive and significant correlation (P-value of 0.002 which is less than 0.05) between Individual Portfolio choice in respect to common stocks and Age at NSE (r=.193).

This implies that age positively influence Individual Portfolio Choice in respect to common stocks and plays an important role in NSE.

Moderated Multiple Regression Analysis Results

Moderated multiple regression analysis was conducted to determine whether investor's age moderates the effect of attitude towards risk on individual portfolio choice at the Nairobi securities exchange.

Overall Significance Test Results

Table 4.7 shows the overall test results for the hypothesized research for model 1 and model 2

Table 4.7 Moderated Regression model in relation to Common Stocks with Age

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1.(Constant)	.414	.096		4.298	.000
Lifestyle	.173	.023	.330	7.484	.000
2.(Constant)	.228	.096		2.366	.019
Lifestyle	.160	.022	.404	7.231	.000
Age	.156	.026	.247	5.977	.000

a. Dependent Variable: Individual portfolio ***Source:*** *Survey Data (2022)*

Optimal Models with Moderated Multiple Regression Analysis

Model 1

OLS Equation $Y= \beta_0+ \beta_1X_1$

Then $Y= 0.414+0.173X_1$

From the above equation Individual portfolio choice on Common Stocks = 0.414 + 0.173Lifestyle.

Equation 4.1

From the above regression model, it was revealed that holding lifestyle characteristics as zero, and the individual portfolio choice in respect to common stocks at the Nairobi securities exchange would be at 0.414. It would imply that 0.414 was being contributed by other factors (variables) other than the study variable.

Further, having lifestyle characteristics as the only variable, denotes that if all other independent variables are rated as zero, a change of magnitude of one unit in X_1 (lifestyle

characteristics), {Y=0.414+0.173*1}leads to a 0.587 change in Y (Individual portfolio choice in respect to common stocks. This implies that there is positive and significant effect (p<.005) on the direct relationship between all the independent variables and the dependents variable the common stocks.

Model 2

$M2 = \beta_0 + \beta_1 X_1 + Z$

$M2 = .228 + .160 X_1 + .156Z$

In model two a regression was done to determine the moderating effect of age on the relationship between investor's lifestyle characteristics on common stocks. After testing for the independent variable the regression analysis revealed that age had a moderating and significant effect on the relationship between the independent variable and common stocks as p = 0.000 (p<0.05 as shown in Tale 4.35 above.

Conclusions and Recommendations

Conclusions

The findings indicate that most of the investors have been trading continuously for between five and ten years. Further, most of the investors are in the age group of between 35 years and 45 years.

It was established that there is a positive correlation between lifestyle characteristics and individual portfolio choice in respect to common stocks at NSE. In addition, they were statistically significant meaning that lifestyle characteristics positively influence portfolio choice at NSE.

The study showed that individual investors continuously focus on and asses investments, guide brokers and accept their recommendations as well as consider family members, friends, brokers or relatives views when choosing to invest at NSE.

It was established that there is a positive moderating effect of investor's age on the relationship between lifestyle characteristics and individual portfolio choice on common stocks at NSE. With the interaction of the moderator the relationship is positive and significant with P value being less than 0.05. The majority of the investors are in the age group of between 35 and 45years. With the interaction of the moderator the relationship is positive and significant in the moderated model.

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