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Equity Investment and Financial Performance of Listed Investment Firms in Kenya

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Abstract

The maximization of an organization benefit is vital and remains the critical goal of any institution in business. Investment decision making in most corporate institutions is regarded as a financial underlying decision executed by top management in the financial sector which include financing decisions and dividends decisions. Making a decision on why to invest on various financial securities is a fundamental goal to the financial performance of an investment firms. Large organizations are faced with portfolio investment problem; this is because there are so many investment projects to be invested on. Nearly all the listed investment firms in Kenya have registered declining profitability in the last five years. The aim of the study was to assess how equity investment affected financial performance of listed investment firms in Kenya. Modern portfolio theory anchored this investigation and was supported by expected utility theory, liquidity preference theory and active portfolio management theory. Explanatory research design provided basis for this research. The study focused on all five listed investment firms in Kenya. The study employed census since investment firms in Kenya are few and can be studied in the entirety. Informed by the availability of already published information, this study obtained data from secondary sources where it covered a period from 2011 to 2021. Since the study targeted various firms in different periods then panel analysis was considered the most appropriate mode data analysis that was borrowed. This mode of analysis enabled the study to test the relationship of study variables as envisaged by the study goal. Finding of the study found out that equity investment positively and significantly affected profitability of listed investment firms in Kenya. Based on the results it can be concluded that equity portfolio investment is an essential predictor of financial performance. The study recommends the usage of the finding as benchmark by regulators in improving investment of portfolio selection in the capital market.

Keywords: *Financial performance, equity investment, listed investment firms, Kenya*

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1.1 Introduction

The maximization of an organization benefit is vital and remains the critical goal of any entity in business. Most decision makers put their money in projects or activities that have adequate returns (Agarwal et al., 2016). These expected returns are either monetary or non-monetary, decision makers lay more emphasizes on monetary and ignore non-monetary returns which are beneficial although may not be measurable (Gounder, & Xing, 2012). Investment decision making in most corporate institutions is regarded as a financial underlying decision executed by top management in the financial sector which include financing decisions and dividends decisions. Investment is a process where current consumption is foregone in favour of future consumption with aim of wealth maximization (Lamichhane et al., 2021). The investment firms are the financial intermediaries which their main focus is the pooling of capital from different players and converting them to financial securities normally referred to as portfolios. Investment firms trade various portfolio assets that include equities, bonds, cash and cash equivalent, real estate among other forms of assets (Cetorelli & Peristiani, 2012).

Investments that involve portfolio assets are characterized by deviations which is generated from the current return to what is likely to be obtained. The changes is characterized by a risk that is common in every aspect of investments (Tansakul, & Yenradee, 2020). Investment returns are ordinarily the indicator of growth in investment across sectors. Investment growth are expressed in the percentages term for uniformity across all sectors ranging from the smallest to the largest (Shukrani et al., 2022). Return on investment is the most critical determinant in which an investor considers before making a decision of investing. Investors are keen on investments that fetches higher returns as compared to those that fetches lower returns risk notwithstanding. Large organizations are faced with portfolio investment problems; this is because of crowding of many projects that require investment attention. This challenge is commonly referred to as project portfolio investment. It is the collection of many projects that are considered mutually exclusive, independent and contingent. According to Gutjahr and Reiter (2010) most of the portfolio investment work involve research especially the feasibility and evaluation stage. The process of maximizing wealth in portfolio investment involve improvement Kornfeld and Kara (2011).

Prediction of equity price return is crucial role in portfolio investment decision making, ordinarily such predictions are faced with various factors that tend to derail the course (Thaler, 2016). On one scenario prices of equity of a given firm may behave in a predictable manner as result of external factors that determine the behavior of equity prices such as prevailing economic conditions. On the others side, despite a firm managing its internal processes very well, existing competitors may assert influence on the overall behavior of stock prices. This makes analysis of investments fundamental to establish the firm worthiness whereby financial statements are in-depth investigated to predict how firms are profitable (Al-Hares et al., 2013). Prediction is very useful in constructing the portfolio of the firm which can be helpful in financial management.

The goal of portfolio investment is construction of asset portfolio with optimal returns that is widely acceptable by investors while venturing. According to Markowitz (1959) a good portfolio constitutes various list bonds and stocks that are in equilibrium and provide the investor a protection and opportunities from the wide range of contingencies. Information is important in making the rational choices when it comes to portfolio investment, previous information serves as the basis when deciding on the viable investment on securities (Subash, 2012). Information concerning the beliefs of the investor is very crucial in ensuring that needs

and aspiration of the investor is taken care off and objectivity is met. Portfolio market is characterized by various form of uncertainties and prevailing market conditions which may not present a clear outlook and this may amount to false anticipation that is prone to errors (Michaud & Michaud, 2008). It becomes difficult to accurately predict how securities will perform in the market and analysists ought to be given opportunity to make their own prediction. Gupta et al. (2013) noted not all information required by portfolio investment is captured on financial criteria only but equally other forms are as important as financial aspect is concerned.

According to Yasar (2021) investment equities are types of investments purchased by investors in form shares in a corporate firm through a pricing prevailing in security market. While on the other hand short term securities portfolios involve short term investments which matures after one year and they include treasury bills, commercial paper, bankers' acceptance, deposit certificates among others (Sánchez & Yurdagul, 2013). Despite the appreciation of individual investment, its success is further attributed to the risk that it encompasses. These risks are systematic and unsystematic, the nature of these risks is driven by different factors.

Portfolio investment is measured using different models that include Modigliani, Jensen index, Treynor's index and Sharpe's index which are varied in line with performance. Sharpe's index measures the relationship between risk premiums and deviation of portfolio. Treynor's index is almost similar to Sharpe's index. The only difference is that this method will use security market line instead of capital market line that is adopted by Sharpe's index. Jensen index is used measure performance of bonds. Jensen's index measure uses portfolio performance as an absolute standard of measurement in benchmarking other portfolios. Thus, it is easier to examine performance of managers. Modigliani risk-adjusted performance measures by comparing value of reference and risk that has been adjusted.

Listed investment firms have invested within their portfolio investment. Typically for investment firms to make sustainable profits they have resorted to employing competent professionals who help them to invest in wide range of portfolio assets so that efficiency is enhanced given that most people cannot manage their own investments. Investment firms have involved themselves in various forms of portfolios that include bonds, equities and short term securities. Financial performance of investment firms is largely attributed to the portfolio investment, especially focusing on the most performing security that reflect the desirable performance of the market.

1.2 Statement of the problem

The constitution of Kenya 2010 has put more emphasizes on sustainable economic growth where every citizen enjoys a decent living (Ministry planning and devolution, 2017). One of the key drivers to the sustainable economic growth is increasing level of investments (Baariu & Jagongo, 2020). However profitability of listed investment firms have been a major concern to stakeholders in the industry. None of the listed firms are making reasonable profit margin in 2021 and this demand why is investments firms not performing well. The listed investment firms in Kenya have been experiencing unstable profitability margins. In 2021, the performance of Olympia Capital in terms of ROA was -0.076% a sharp decline from 0.6% in 2020 (Olympia Capital, 2021).

Many empirical investigations have conducted research on investment portfolio on investment firms. Shukrani et al. (2022) observed that a strong association between short term securities, equity and bonds on how financial assets perform of investment firms. Rehman (2013) while

investigating how leverage affected financial performance noted that leverage improved profitability. Babatunde (2023) investigated how current assets enhanced financial performance and concluded that short term securities engineered financial performance but adversely affected dividend appreciation.

1.3 Objectives of the study

The main goal of the study was to determine the effect of equity investment on financial performance of listed investment firms in Kenya**.**

2.0 Theoretical and Empirical Review of the Study

This study review theoretical underpinning of the study and empirical study relating to area of study.

2.1 Theoretical Literature

The study was by liquidity preference theory. John Keynes (1930) founded liquidity preference theory and was premised on the idea of offering an alternative view to the controversial classical theory of interest rates, the theory noted that investments and savings are not determinants of interest rates and supply of money largely determine interest rates. Money demand is a critical determinant that thrive interest rate as result of various motives such transaction, precautionary and speculation. Income is playing a critical role on the aspect of transaction and precautionary while speculative is more inclined to utility aspect that thrive interest rate.

This theory is important because it explain how individual and businesses prefer holding assets in monetary form especially portfolios. It is carried out by speculative and precautionary motive. Investments that are highly convertible into liquid are more preferred by investors to sorting out financial obligations. (Kiboi & Bosire, 2022). Liquidity is paramount for investments that have high prospects on the liquidity. The liquidity aspect in the theory is an indicator of financial performance. Firms are expected to remain liquid so that they can meet their daily financial obligation. Illiquidity is an indicator that financial soundness of the firm is faced with challenges and are unable to meet its financial obligations timely. Firms are expected to be liquid so that can meet their financial obligations timely.

Modern Portfolio theory is premised on the idea of risk averse put forward by Markowitz (1952). Investors are considered risk averse and can only construct portfolios based on the nature of the risk that will present itself, given portfolio choices with returns but characterized by different risk investors will select the lesser risk portfolio. Investors will only take a higher risk portfolio if they are compensated with reasonable returns worth the risk. However, high risks are more likely to generate higher returns and investors are supposed to embrace this. The tradeoff for this investors are certain and different investors are likely to ascertain the tradeoffs based on individual aversion. Modern portfolio theory is based on several assumptions. According Markowitz (1952) every asset has probable outcomes and can be defined by possibility of its distribution. It is imperative that investors optimize their utilities from their assets. Most investors' weight in the risk that is attached to any form of investment thus are more risk averse.

This theory is relevant to this study because it guides investors on portfolio investment. Investors were able to make informed choices based on the returns and the level of risk that is associated with any given portfolio. Investors also sought more information which may help them make better choices.

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2.2 Empirical Review

Past studies on bond investment, equity investment, short term securities and size of a firm and financial performance of investment firms. While analyzing relationship of leverage and financial performance Rehman (2013) undertook a study on investment firms listed in Kerachi stock exchange. Descriptive research design was adopted. Debt equity ratio improved return on asset significantly. Leveraging of firms increases liquidity ratio which reduces obstacles on daily operation thus creating efficiency. It improves the volatility level on equities likewise to variability of interest rates that thrive stock prices in the market.

Investigating how capital structure affect profitability Vătavu (2015) targeted Romanian listed companies. The study employed cross sectional regression and 196 listed companies in Romanian security exchanged were selected. The study revealed that huge equity investment resulted to increased financial performance of firms. Profitable firms invest in less risky assets and maintain high proportion of equities in their capital structure.

While assessing how equity influenced profitability Gathara et al. (2019) focused on listed financial companies. The study selected 30 companies and adopted descriptive research design which focused on the period 2007-2015. Equities affected financial performance positively. Financing of many firms involve using short- and long-term equities which are considered less risky. The adoption of equity is important in explaining variation in firms' performance especially the financial aspect.

Muema et al. (2021) assessed how portfolio investment affected profitability a study undertaken in Kenya. It was deduced that equity investment had insignificant influence on financial performance. Equity investments does not explain profitability of an investment firm. Increase of equity improves firm current ratio. Reliance of equity investment in a firm amount to lower interest cost apart from any other forms of investments thus enhancing liquidity.

Njeri (2022) critically analyzed role of equity investments on profitability of businesses in Africa. The study adopted desktop review where critical literature was examined. Finding of the research deduced that equity investment has less impact on profitability of investment entities in Africa. This finding showed that increment in equity holding is likely to enhance current ratio.

2.3 Conceptual Framework

Conceptual framework is a systemic diagram that indicate the relationship variables under investigation. This diagram indicates the relationship of the variables of interest (Kothari, 2008). Figure 1 indicates how the predictor variables (equity investment) and financial performance of listed investment firms in Kenya are related.

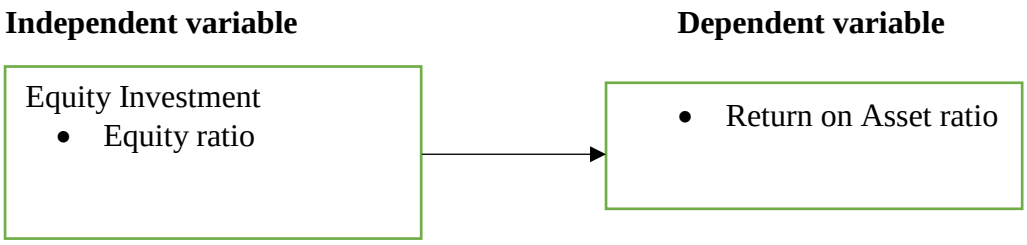

Figure 1: Conceptual Framework

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Equity investment is the independent variable of the study. The study used ratios to compute and measure variable of the study and equity was computed to the total portfolio.

3.0 Methodology

Positivism is based on deductive method which examine hypothesis that are qualitatively stated and relationship of variable are casual related (Haig et al., 2018). Positivism, however does not only rely on quantitative but employ other methods depending on the nature of the case. Positivism aims at generating prediction of an outcome using causal relationship between variables. The operationalization casual framework on predicting how variables are related help one to determine the nature of variables relationship (Park et al., 2020). In addition, the study adopted explanatory research design. The design was considered more appropriate since it aimed at examining the cause and implications of the phenomena which resonate with the objective of the study (Limberg et al., 2021).

The target population were listed investment firms in Kenya and they are currently 5 in total. The investigation was carried out in time duration of 10 years starting from 2011 to 2021. Census of all the 5 listed investment firms by NSE constituted what the research targeted. Census sampling is the most appropriate when the target population is small (Cantwell, 2008).

Data was grouped in the form of descriptive and inferential. The descriptive data involved use of statistical techniques such as maximum, standard deviation, minimum and mean. The technique gave exact how features in population looked like by making less inference. In addition, inferential statistics dealt with how study variables related. Panel regression model technique was employed to measure relationship of study variables and test hypothesis. It was used to identify the nature of relationship between portfolio selection and financial performance. The panel mode of analysis is considered appropriate since it minimize the level of biasness and thus reduce chances of error making. The results of the analysis were presented using both tables and figures. The panel data was analyzed by the research using Stata software version 16.

Model of the study appeared as;

$$Y_{it}=\beta_0+ \beta_{1t}X_{1t}+\varepsilon$$

X_{1it} is Equity investment of listed investment firms in Kenya i at time t
i is of listed investment firms
t is time factor 2011-2021
ε =error term

4.0 Results

This chapter presents the findings of the study and further discussion.

4.1 Descriptive Results

The study assessed the data structure of the variables using various tools of central tendency that include mean, standard deviation, maximum and minimum and the finding is presented in Table 1.

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Table 1 Descriptive Results

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	55	-0.0467	0.174817	-0.65512	0.152789
Equity Ratio	55	0.544868	1.629589	-3.53633	8.253399

Centum investment Company made the highest profit within the period 2011 to 2021 as shown by the return on asset of 0.152789. It was established that Home Afrika limited Company recorded the highest loss within this period as shown by the minimum of -0.65512. The study showed that investment companies made loss within this period as indicated by the financial performance average of -0.0467 as backed by SD of 0.174817. The deviation from average indicated that the disparity from the mean was minimal thus all the investment firms' profitability within this period was characterized by certain degree of profitability. Financial performance of many investment firms is a matter of concern since all of them on average are making loses. Although, the disparity is minimal in terms loss making is minimal but for any firm to be sustainable in the long run profitability is key. Investment firms largely rely on capital from investors who are driven by profitability. Loss making in the long run will erode their confidence level and thus reduce capital injections into running activities of investment firms. It is crucial for investment firms to find solutions and employ innovative strategies in order to mitigate the loss-making process.

It was revealed that Kurwitu Ventures enjoyed more equity investment over other players in the market as indicated by the maximum of 8.253399. The study revealed that Home Afrika limited had the lowest investment on equities as signified by the minimum statistic of -3.53633. The study taken a note that several investment entities recorded an average equity investment of 0.544868 which was backed by standard deviation of 1.629589. The standard deviation signified there was a substantial disparity between equity investments among the listed firms. The proportion of equity investment varied across the listed firms. Some firms focused much on the equity investment while some reserved their investments on other instruments excluding equity investments.

The ownership interest of a firm is affected by debt equity investments. This is because the amount contributed as shares and other forms of capital attract interest which is a cost in the long overrun. On the other hand, serving equity investment attract cost which may hamper profitability of an investment firm. Other shareholders for instance preference share earn their agreed returns regardless of the situation which the firm underwent. Thus, when the equity investment is faced with fluctuation then there is likely the firm is going to bear a bigger responsibility over a huge loss that may be created.

4.2 Relationship between Equity and Financial performance

The study first undertook tests to determine whether data was fit for further analysis. Some the tests done included normality test, linearity test, correlation test, homogeneity test and collinearity test.

Unit Root Test

This unit test is based on assumption all series are not stationary while contrary view was at least single series had stationary data. Testing of the hypothesis was based on the assumption that all the panel data contain unit roots. Moreover, alterative hypothesis was premised on the

ground that at least one panel data had no unit root (Hanck, 2013). The finding of the unit root test is presented in Table 2.

Table 2 Fisher-type Test of Unit Root

Variable		Inverse chi-squared (70) P	Inverse normal Z	Inverse logit t (179) L*	Modified inv. chi-squared Pm
ROA	test statistic	52.0631	-5.1278	-6.4574	9.4056
	p-value	0.0000	0.0000	0.0000	0.0000
Equity investment	test statistic	56.1045	-3.3599	-6.4807	10.3093
	p-value	0.0000	0.0004	0.0000	0.0000

Unit root results testing for stationarity showed that, return on asset, and equity investment were all stationary since all estimated p values <0.05. According to Gujarati, (2009) when data are stationary then further analysis can be conducted.

Normality test

Test of normality involved an investigation framed on the assumption that guide how data is supposed to be distributed normally. Skewness and kurtosis statistics are the ideal parameters of determining normality and is decided when the estimated p value of skewness <0.05 thus reject the hypothesis and concluded that data is not normally distributed and converse is also true.

Table 3 Normality Results

Variable	Observation	Skewness	Kurtosis	p-value
ROA	55	1.0670	0.7324	.166
Equity investment	55	2.0211	0.6413	.825

Based on the finding from this particular study the p values of all the study variables are > 0.05 thus the data is normally distributed and the null hypothesis is subsequently rejected.

Hausman Test for random and fixed

A test that is done to know the type of a model between fixed and random effect model which is appropriate is referred to Hausman test (Baltagi, 2005). The hypotheses are stated as;
H_0: Random effect is appropriate model
H_1: Fixed effect is appropriate model

Table 4 Hausman Results

ROA				
Column1	**(b)** fixed	**(B)** random	**(b-B)** Difference	**sqrt(diag(V_b-V_B))** S.E.
Equity investment	0.129048	0.127039	0.002009	0.013482
chi2(3)	0.9113			
Prob>chi2	0.53			

Hausman's approach (1978) was adopted in testing Hausman parameters. The null indicates that random is preferable to fixed model. According to the study finding 0.9113 and p-value 0.53>0.05, random effect model was the most preferred and thus null hypothesis was not rejected.

Multicollinearity Test

When regressors are highly correlated it exhibit a phenomena known as multicollinearity (William *et al.* 2013). To test multicollinearity of this study, the study employed variance inflation factors (VIF) and tolerant factor. The decision on this test is shown by VIF ranging within value of 10 depict lack of multicollinearity whereas VIF greater than 10 indicates that there is multicollinearity in the data set.

Table 5: Multicollinearity Results

Variable	VIF	1/VIF
Equity investment	3.27	0.30581
Mean VIF	**3.27**	

Finding in Table 5 showed absence of multicollinearity in the data set. The variance inflation factor results of the variable was within a range of <10. This implied the data set did not suffer from severe multicollinearity.

Serial correlation Test

Serial correlation is a problem that affect time series data and this was necessary in this study since the data used was across time duration. This is a problem that is frequently experienced in data analysis on data that factors time. The investigation employed world bridge test. The null hypothesis can be stated as data does not exhibit autocorrelation and finding is presented in Table 6.

Table 6: Autocorrelation Results

Wooldridge test for autocorrelation in panel data
H_0: no first-order autocorrelation
F (1, 54) = 1.718
Prob > F = 0.0519

The finding in table 6 indicate absence of autocorrelation since serial correlation test undertaken showed that F-test of 1.718 and a p= 0.0519>0.05. This signify that null hypothesis is rejected and no autocorrelation exist. Consequently, data does not suffer from autocorrelation.

Heteroscedasticity Test

The test to determine whether variance of regression errors is constant and violation of this result to heteroscedasticity and the study adopted Breusch-Pagan / Cook-Weisberg test to ascertain this. When Chi square values are larger it indicates presence of heteroscedasticity (Islam, 2019). The finding of the study is presented in table 7.

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Table 7 Heteroscedasticity Results

Breusch-Pagan test for heteroscedasticity
Ho: Constant variance
Variables: fitted values of ROA
chi2(1) = 0.21
Prob > chi2 = 0.6436

Based on the findings in Table 7, chi square of 0.21 showed that data did not suffer from any form of heteroscedasticity.

Test for random and pooled effects using Breusch and Pagan Lagrangian multiplier

This measure is used to check whether a study can adopt ordinary least squares, pooled or random effect model in estimating relationship of study variables. A computed p value of >0.05 signify that pooled OLS is suitable for estimating the relationship of variables in the model while a p value of <0.05 indicate that random effect is more suitable in estimating the relationship of variables under investigation. The study checked whether appropriate model was Pooled OLS or rand OLS using Breusch and Pagan Lagrangian multiplier and the finding is examined in Table 8.

Table 8: Breusch and Pagan Lagrangian multiplier test results.

chibar2(01) =	0.03
Prob > chibar2 =	0.4295

According to the finding in Table 8, computed p value was 0.429 which was greater than significance level thus pooled OLS was the appropriate model of estimation.

4.2.1 Correlation

The study investigated the nature of association of the study variables. The study employed Pearson correlation to establish the nature of association of the study variables. The strength of the association between the regressors and regressand was also investigated and the finding is presented in Table 9.

Table 9 Correlation Results

Variables	ROA
ROA	1
Equity Ratio	0.4534 0.0005

The study established that equity investment and financial performance positively and significantly associated with each other (r=0.4534, p=0.005<0.05). The nature of association was moderate since coefficient correlation was >0.3. The study also found out that association between equity investment and bond investment, short term securities and the moderator was minimal thus exhibited low level of multicollinearity which was tested further using

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appropriate diagnostic tools. According to Rehman (2013) and Vătavu (2015) equity investment resulted to increased financial performance of listed investment firms.

4.3 Model Estimation

The pooled OLS was used to estimate the model which determined the relationship of the variables under investigation.

The objectives of the study was to determining the effect of equity investment on financial performance was determined using pooled OLS panel model and finding is presented table 10.

Table 10 Pooled OLS model

Source	SS	df	MS	Number of obs =	50
				F(3, 46) =	10.43
Model	0.454735	3	.151578169	Prob > F =	0.000
Residual	0.668733	46	.014537672	R-squared =	0.4048
				Adj R-squared =	0.3659
Total	1.123467	49	.022927906	Root MSE =	0.12057

ROA	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
Equity investments	0.126077	.0284202	4.44	0.000	.0688697	0.183284
_cons	-0.07167	.0186914	-3.83	0.000	-.1092904	-0.03404

The R square was used to determine how the model is fitted. It was revealed that revealed that the coefficient finding of 0.4048. This means that equity investment explained 40.48% of the variation of financial performance. This signify that equity investment is a determinant of financial performance. This was backed by F statistics probability of 0.00 which signify that the model is statistically significant jointly and can be used in explaining how the study variables are related. Financial performance assesses the outcome of strategies of firm, financial parameters performance, high productivity and effectiveness in monetary terms. It also lays out how a firm utilizes resources effectively to derive profitability. This will help the management to define the competitiveness of a firm and also explore the potential of a business.

Finding of the study deduced that equity investment and financial performance of investment firms are positive and significantly related (β =0.126077, p=0.000<0.05). It was backed by a computed t-statistic of 4.44 that is greater than the critical z-statistic of 1.96. In that regards null hypothesis of the study is rejected because it stated that there is no statistical significance between equity investment and financial performance of listed investment firms in Kenya. Therefore, the study conclude that equity investment is a significant predictor of financial performance of listed investment firms in Kenya. It implied that additional of investment in equities yielded to increased profitability by 0.12%. Equities attract adequate returns which result to increased profitability of an investment firm. Adequacy of returns from investment on equities has seen more investors channel their resources in this important asset with reasonable returns.

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Discussion

Examining the impact of equity investments on the financial performance of listed investment firms in Kenya was the study's second objective. The study found out that equity has a positive and significant effect on financial performance of listed investment companies. Investment of equities is normally a decision taken by top management within an investment firm and is based on returns quantified as dividends. The sacrifice of the current consumption over future in order to maximize returns entail equity investment.

The decision to invest on equities by a firm is normally a complex decision taken after considering several options that all have a chance of resulting to more opportunities. Equity investment is normally considered investment with high returns accompanied by high degree of risk and only firms that are considered not risk averse ventures in equity investment. This can only be attained by tailoring strategies and goals of firms in profit maximization. Equity investment is known to be attached to several economic aspects that largely involve money and improvement of investors' welfare. The equity investment firms are driven by incentives of accruing benefits from the current investment in equities by ensuring that wealth is maximized.

Investments that involve equities are characterized by deviations which is generated from the current return to expected return. This variation is characterized by a risk that is common in all forms of investments. Equity Investment returns signify growth in investment across sectors. Investment on equities normally record uniform growth which are replicated across all sectors ranging from the smallest to the largest (Shukrani et al., 2022). Return on investment is the most critical determinant in which an investor considers before making a decision of investing in equities. Investors are keen on investments that fetches higher returns as compared to those that fetches lower returns risk notwithstanding which are possessed by equity investment.

Prediction of equity price return is crucial role in portfolio investment decision making, ordinarily such predictions are faced with various factors that tend to derail the course. On one scenario prices of equity of a given firm may behave in a predictable manner as result of external factors that determine the behavior of equity prices such as prevailing economic conditions. On the others side, despite a firm managing its internal processes very well, existing competitors may assert influence on the overall behavior of stock prices. This makes analysis of investments fundamental to establish the firm worthiness whereby financial statements are in-depth investigated to predict how firms are profitable. Prediction is very useful in constructing the portfolio of the firm which can be helpful in financial management.

Risk minimization is vital aspect in equity investment management, minimization of risk associated with equity investment is important for a firm that intend to reap high returns. The risk minimization in equity investment is only feasible if the appropriate decision is undertaken. Equity investment requires management of risk to desired levels by selecting the most appropriate equity that is less risk with attractive interest in a given period of time. Equity investment is realized when non-performing assets are combined in one portfolio and is expected to achieve optimal performance. Positive equity investment rationale gives an edge because it fetches higher returns as compared to the benchmark rate.

The investment on equity optimally combines optimally with debt that result to desirable financial performance of a firm. The benefit of combined equity is vital on financial performance. Benefit derived from combined equity is shared amongst the shareholders. This is important in maximizing the equity which is beneficial to the stakeholders. Many investors have resorted to equity investment since has attractive returns which are earned within a shorter

period of time. Equity investment is known to be flexible in terms of how it is repaid which can take any form the investor may opt for.

Construction of portfolio is one of the key function of equity investment which is supposed to have returns in form of profits. One way of achieving this is by creating equity funds that is made available to the investors for consideration. This is also considered an incentive of supporting investment portfolios in business. One way of securing this funding is through debt equity financing by private means to increase investment portfolios. This investment is normally undertaken by listed players in the market to guarantee security and predictability.

Equity investment portfolio may suffer from market risk which may hamper its performance. The risk that affect equity investment tend to decline when number of perfect correlated assets rises. On the other hand, resorting to diversification may attract more cost to the equity investment thus reduces profitability margin. Rational individuals tend to avoid anything that will result to risk or loss for instance over diversification. However, diversification of certain assets may result to optimal returns but many scholars agree that this phenomenon attract additional costs to a business. These costs may include brokerage fees where investors purchase low priced equities and later result on higher prices after certain period of time distorting markets.

The finding of the study agreed with an investigation by Vătavu (2015) which found out that huge equity investment resulted to increased financial performance of firms. It further concurred with a study by Gathara et al. (2019) which revealed that equities affected financial performance positively. This was contrary to the studies by Njeri (2022) and Muema et al. (2021) which established that equity investment has less influence on financial performance of investment firms listed in their respective countries.

5 Conclusion and Recommendations

Inferring from investigation results, it can be noted that equity investment is an essential predictor of financial performance. Several investment firms have ventured on equity investment as signify by average investment on equity estimated to be 0.544868 to assets. This is way above average equity investment to total assets and it imply that for every one shilling of an asset 54.4868% are equities form of investment.

The study established that equity investment has a positive and significant relationship with financial performance. The danger of relying on one investment may increase the risk that is associated with. The only way to divulge such form of risk is getting alternative form of investment. The study should diverse forms equity investment in the sector. Diversification of investment especially equity investment is key in mitigating possible risk posed on investing only in equities. Diversification of investment may bring uniqueness which probably many investors may opt to try with an optimistic expectation that new opportunities may have optimal returns since few people have ventured.

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