

Abstract

Investment involves a possibility of variation or deviation in the actual return from the expected return. The return of an investment is a major determinant of whether the investors will sacrifice their present resources or not. The investors are more interested in investments or securities that promise higher returns than those that promise lower returns. Portfolio management still remains as a science that does not give clear answers on the portfolio construction. This study sought to establish the effect of portfolio diversification on the financial performance of Kenya's quoted investment firms. The specific variables were bond investments, equity investments, mutual fund investments and real estate investments on return on investments for the investment's firms at Nairobi Securities. The theoretical framework was informed by portfolio theory, Black-Litterman theory and capital asset pricing model. The study adopted descriptive research design approach. The five listed investment companies at the NSE which formed the target population of this study and a census technique was used to select the five listed investment companies in the NSE. The study used secondary data that was extracted from the NSE and the websites of the respective listed investment companies. Data was collected covering 6 years from 2014 to 2019. Descriptive statistics was presented in mean, median, standard deviation while the inferential statistics included diagnostics tests and multiple linear regression model. The results revealed a negative and insignificant relationship between bond investments and return on investments for the investments firms at Nairobi Securities Exchange. There was a positive and significant relationship between Equity investments and return on investments for the investment's firms at Nairobi Securities Exchange. Mutual Funds' investments had a negative and insignificant relationship with return on investments for the investment's firms at Nairobi Securities Exchange. Real Estate investments revealed a positive and significant relationship with return on investments for the investment's firms at Nairobi Securities Exchange. The study concluded that bond investment has negative influence on the financial performance of investment companies listed firms. Mutual fund investment has a negative influence on the financial performance of investment companies listed firms. In contrast, Equity and real estate have a positive influence on the financial performance of investment companies listed firms. The study recommends that listed investments firms should invest more on the real estate compared to bond and mutual funds securities since real estate had higher significant effect on financial performance. The study further recommends that investment firms should maintain investment in equity so that to increase their financial performance, but they should invest less compared to the real estate investment. The management of the investment firms listed at the NSE should strive to improve the financial performance of their firms to enhance their firms' equity returns. Based on the weak relationship on bonds and mutual funds with financial performance which is seen by regression analysis, the study recommends that investment firms should consider investing less on bonds and mutual funds given the same market conditions.

Keywords: Bonds, Equities, Mutual Funds, Financial Performance & Nairobi Securities Exchange