

## **ABSTRACT**

Investigations into the IPO market in Kenya have shown that, on average, IPOs provided abnormal return in the immediate aftermarket to investors who purchased at the initial offering. This seemed to have led to an oversubscription of recent IPOs some of whose aftermarket performance has since been dismal. This suggests that investor decisions were potentially influenced by cognitive and emotional biases that led to their faulty investment decisions as explained by behavioural finance theorists. This led to the question; which particular behavioural biases influence individual investor decisions with respect to IPOs? Thus, the general objective of the study was to determine the effect of behavioural biases on individual investor decisions with respect to IPOs in Kenya. To meet this broad objective, the study sought: to determine the cognitive biases that affect individual investor decisions, and to determine the emotional biases that affect individual investor decisions. Descriptive research design was adopted. The population was estimated at 1.3 million based on new investor data since the year 2006. Stratified sampling was used based on gender. The sample comprised of 96 individuals who had invested in an IPO. Data was collected using a structured questionnaire. Spearman's rank correlation coefficient and linear regression modelling techniques were used for analysis. The data was analysed using SPSS. The findings were presented in figures and tables. The findings showed that cognitive and emotional biases accounted for 57.5% of the variance in individual investor decisions towards IPOs at the NSE, with regret aversion bias (Beta=-.309) possessing the highest explanatory power on the individual investor decisions. The study findings implied that individual investment decisions towards IPO were influenced by cognitive biases than they did emotional biases. It was recommended that investor education is the key to overcoming unfavourable investment outcomes caused by behavioural biases. In order to manage the excesses of behavioural influences to investment decision making, training programs that create investor awareness and ability to identify and guard against cognitive errors and emotional biases that lead to bad investment choices should be offered to prospective individual investors