

ABSTRACT

Country's politics can exert significant influence on its income distribution and prosperity hence affect the activities in a stock market as voters in democratic states elect parties which best represent their personal beliefs and interests. Election results may affect post-election corporate performance either by influencing a country's overall economy, like through changes in government spending either through fiscal changes, or company or sector-specific decisions such as changes in the regulatory environment after the new administration has been established. This study sought to examine the effects of the general elections on the stock market return of companies listed in the Nairobi Securities Exchange. The study adopted an event study methodology since the study was concerned with the establishment of the information content of election results announcement on share performance at the NSE. The population of this study was 56 companies listed in the NSE. The study used secondary data to gather information. Data obtained from the NSE covered the period before and after 31st December 2002, 27th December 2007 and 4th March, 2013 elections. The collected secondary data was coded and entered into Statistical Package for Social Sciences (SPSS, Version 20) for analysis. Study findings from the market model indicated that the market return is a good predictor of actual stock returns. ANOVA results indicated that abnormal returns, actual stock returns, and expected returns before elections were significantly higher than abnormal returns after the elections. It is recommended that investors should factor in elections effect when making investment decisions. Specifically, investors should buy stocks after elections and sell them when their returns are high, that is, before elections. It is recommended that the Government should maintain stability after elections as economy brings about drops in stock returns. The unique contribution of this study is that it reduces the lack of conclusiveness on the studies which attempt to link elections to performance of stock markets in sub-Saharan African economies