THE ANNOUNCEMENT EFFECT OF CAPITAL GAINS TAX ON STOCK PERFORMANCE AT NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

Student's Declaration

I declare this research project report as my original work and has not been submitted for examination in any other institution.

Signature: ..... Date: .....

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Supervisor's Declaration

This research project report has been submitted for examination with my approval as the university supervisor.

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DEDICATION

To my parents for your prayers, encouragement and all the support I needed.

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To my nephews Karinga and Kabiru for constantly calling me and praying for me.

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ABBREVIATIONS

AAR - Average Abnormal Return

AR - Abnormal Return

CAAR - Cumulative Abnormal Returns

CGT - Capital Gains Tax

CMA - Capital Markets Authority

EMH - Efficient Market Hypothesis

GEM - Growth Enterprise Market

KRA - Kenya Revenue Authority

NSE - Nairobi Securities Exchange

NASI - NSE All-Share Index

ABSTRACT

Shareholders returns are in form of dividends issued and the capital gains realized from the sale of investments. Capital gains tax is levied on the capital gains realised by investors on sale or transfer of chargeable assets such as marketable securities. It was expected that investors will react to any news that will affect them. In an efficient market security prices adjust immediately and fully to reflect all available information both public and private. In Kenya CGT had been suspended in 1985 to encourage investment in the real estate sector as well as spur growth in the securities exchange. It was later announced to be reintroduced through Kenya Gazette Supplement No. 141 on 19th September 2014 to be effective on 1st January 2015. However, it was not implemented. Thus this study sought to assess the announcement effect of capital gains tax on stock performance at Nairobi Securities Exchange. Daily stock prices for the 57 sampled stocks and the daily NSE 20 Index was extracted from the NSE database and analysed using Ms Excel and SPSS. The study adopted the event study metrics consisting of 31 days as the event window i.e. 15 days before the event day and 15 days after. The study adopted descriptive design method. Abnormal returns for each stock and the AAR for each day were calculated and aggregated to obtain. CAAR. Paired t-test of significance was calculated. AAR increased after the announcement of CGT. There was a difference in the performance of the stocks before and after the announcement. The study concludes that the announcement of capital gains tax had a positive effect on the performance of stocks at the Nairobi Securities Exchange

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

It was expected that investors will react to any news that will affect them. In this case react positively to good news and negatively to bad news. This will affect the demand or supply in the market and as a result push price up or down to reflect the new information. According to Fama (1970), a market is efficient if security prices immediately and fully adjust to reflect all available information therefore prices reflect all public and private information. Markets response to information disclosure is immense and it covers a wide range of information disclosures such as dividends announcements, stock splits, mergers and acquisitions, earnings announcement, even the fiscal policies and in our case the capital gains tax.

Capital gains tax (CGT) is tax levied on profits realized on chargeable assets which includes marketable securities as seen from (Kaplan, 2012). In Kenya CGT announced to be reintroduced by the Finance Act No. 16 of 2014 through Kenya Gazette Supplement No. 141 on 19th September 2014 with an applicable rate of 5% of the net gain (www.kenyalaw.org). It had been suspended in 1985 to encourage investment in the real estate sector as well as spur growth in the securities exchange. CGT was announced to be effective on 1st January 2015. The announcement saw investors reacting to the new information. This saw the NSE 20 Share Index slipping following investors exiting the market due to fear of reintroduction of CGT. Increased activity in the markets was also observed as investors harvested gains ahead of the tax. Exit of foreign investor was said to have slowed down activity at the (NSE) which depressed share prices (www.businessdaily.com). CGT was never implemented but was later replaced by with-holding tax of 0.3% on the value of share transactions.

CGT is levied on profits realized on chargeable assets thus reduces shareholders returns. Increase in CGT causes investors to retain older investments even if more profitable and productive opportunities become available. Economists call this the "lock-in effect," which discourages investment in new business ventures. (Clemens & Lammam, 2014). Thus any announcement of an increase or decrease in CGT rate will lead to reaction by the investors either positively or negatively thus affecting prices. Theoretical literature offers conflicting predictions on how changes in CGT rate affects stock prices. This indicates that the announcement of CGT will also affect share prices. Collins and Kamsley (2009), predicted that share prices will rise when expected future CGT are reduced. Klein (1999), showed that by mitigating the Lock-in effect, the CGT rate cuts may decrease stock prices. However, Millers and Scholes (1978), assumes marginal investors are not affected by the CGT policy and therefore there is no share price reaction for instance the tax exempt investors. Thus in our case CGT announcement is considered as one of the important factors when determining the movement in the share prices and thus the stock performance.

Most of the studies carried out on the effects of announcements have concentrated on earnings announcements, dividends announcements and bonus issue announcements among others. However, empirical evidence from these studies seems to largely proof the theory of efficient market hypothesis. Stigliz (1981), stated that the reaction of stock prices to the release of new information may not be immediate and thus prices may not fully reflect all the available information. This study assessed the effect of announcement of CGT on stock performance by assessing the stock returns using secondary data obtainable from the NSE database. It assumed an announcement to

increase capital gains tax since it had been suspended. It is an event study where the event window will cover 30 days before and 30 days after the announcement. The announcement dates being considered will be on 19th September 2014 when CGT was gazetted and 1st January, 2015 when it was supposed to be implemented.

1.1.1 Announcement of Capital Gains Tax

Capital gains tax (CGT) is tax levied on profits realized on chargeable assets which includes business assets, immovable and movable assets, intangible assets, and marketable securities as seen from (Kaplan, 2012). CGT rate is charged on the realised capital gains. Thus reduces shareholders returns. Capital gains tax is thought to stifle investment, discourage entrepreneurship, and damage a country's economy. It causes investors to retain older investments even if more profitable and productive opportunities become available. Economists call this the "lock-in effect," which discourages investment in new business ventures. (Clemens & Lammam, 2014).

CGT announcement is considered as one of the important factors when determining the movement in the share prices and thus the stock performance. A change in CGT is said to influences asset prices by shifting both the demand for assets and the supply of assets. Specifically, when the capital gains tax is increased, the demand curve for assets is shifted down, reflecting the decline in prices required to attract buyers. An increase in the capital gains tax also shifts the supply curve up, reflecting the boost in prices required to entice current owners to sell.

Returns to the shareholders may be inform of dividends or capital gains. However, most companies pay no dividends and those that pay distributes a very small fraction

of their profits. Therefore CGT would appear more important to investors than the dividend tax (Shackleford, 2004). Thus any announcement on the CGT would have investors react to it.

1.1.2 Stock Performance

Stock performance is the measurement of a stock's ability to increase or decrease the wealth of its shareholders. Performance is typically measured by its fluctuation in price. For example when stock price increases, the stock shows good performance and when it decreases it’s an indication of poor performance. The performance of the stock is an indicator of the shareholders wealth. Good performance of the stock indicates maximisation of the shareholders wealth. On the other hand, a poorly performing stock points towards a decrease in shareholders wealth (www.ehow.com).

The factors that affect stock’s performance on the market include the health of the economy, condition of the stock market and the health of the company. When the economy is at recession the prices tend to drop and when the economy is at expanding, the share prices rise. During a bear market, investors tend to avoid stocks. This decreases demand which eventually lowers the stock prices. In a bull market, investors are more aggressive in buying thus pushes the stock prices up. When a company is said not to be performing well, investors are forced to sell their stock and this leads to lower the share prices (Capozzi, 2008).

Investors look at several different measures of stock market performance for a gauge of performance and an indication of the overall economy. Economists consider the stock market when they look at the economic health. The most common measure of

performance are the market indexes. The most popular index in the world is S&P 500 (an American stock market) (Capozzi, 2008).

1.1.3 Announcement of Capital Gains Tax and Stock Performance

A rational taxpayer is expected to respond to changes in the announcement of CGT. An increase in capital gains tax rate may make taxpayers to lock-in substantial amount of realised appreciated gains. Consequently a decrease in CGT rate may make a taxpayer to unlock accrued gains (Akindayomi, 2013). Therefore an announcement to introduce or increase CGT may lead to investors to lock-in substantial amount of realised appreciated gains and an announcement to abolish or decrease of CGT rate may make a taxpayer to unlock accrued gains.

Some studies have been carried out to provide empirical evidence on the relationship between CGT and stock performance. For example Lang and Shackelford, (1999), sort evidence of stock price reaction to CGT rate reduction. They concluded that the CGT cut enhances the attractiveness of the investment to investors and in the long run it increases the stock market value. According to Afonso and Sousa (2011), an increase in taxes with government spending unchanged would lower (expected) asset returns (or prices) as they discourage investors from further investing in the stock market. This indicates that any announcement on any change relating to CGT will affect the stock performance as the investors will react to the announcement since they will be affected.

1.1.4 Nairobi Securities Exchange

Nairobi securities exchange (NSE) started trading as an informal sector market in 1920's when Kenya was still a British colony. It was constituted in 1954 under the

name Nairobi Stock Exchange as voluntary association of stock brokers registered under the Societies Act. It later changed its name to Nairobi securities exchange in July 2011 to comply with its strategic plan of trading, clearing and settlement of equities, debt, derivatives and other instruments (www.nse.co.ke)**.** It plays an important role in the process of economic development of helping to mobilize domestic savings thereby bringing about reallocation of financial resources from dormant to active agents, give investors a chance to own shares of reputable firms, enable companies to raise funds, and also facilitates government's privatization programmes. There are 64 companies listed in the NSE as of January 2015. The companies are classified into 11 sectors namely; Agricultural, Automobiles & Accessories, Banking, Commercial & Services, Construction & Allied, Energy & Petroleum, Insurance, Investment, Investment services, Manufacturing & Allied and Telecommunication & Telecommunication & Technology. (www.nse.co.ke)**.**

NSE is regulated by the Capital Market Authority (CMA) by ensuring proper conduct of all licensed persons and market institutions and also ensuring that the investors' interests are protected. It regulates the issuance of the capital market products such as shares and bonds in the NSE. CMA is mandated to promote market development through research on new products and institutions. (www.cma.co.ke)**.**

CGT was first introduced in Kenya in 1970 seven years after Kenya gained Independence from the Britain. A rate of 35% was charged on the net capital gains realized by a person on the transfer of property, including marketable securities. This tax was assessed by the taxpayer and paid at the end of the year. It was later suspended in 1985 to encourage investment in the real estate sector as well as spur

growth in the securities exchange. CGT was gazetted on 19th September 2014 to be reintroduced and become effective on 1st January 2015 but was not implemented. A rate of 5% was to be charged on the net gain which is the excess of the transfer value over the adjusted cost of the property being transferred and be submitted to Kenya Revenue Authority (KRA) by 20th of the following month after transfer. This was to cover the accumulated gain since the tax was suspended. The stock brokers were responsible for deducting and submitting the capital gain tax. (www.kra.go.ke)

The announcement relating to reintroduction of CGT scared away investors from the market for fear of the tax. This made investors to harvest gains ahead of the CGT reintroduction. Ngigi a columnist of *Business Daily*, observed that three days in a row in the last week of November 2014 shares worth more than Sh1.5 billion were traded compared to daily averages of Sh680 million conducted in the first 10 months of the year. The Standard Investment Bank also observed that both the NSE 20 Index and NASI (NSE All-Share Index) closed in the red for the seventh consecutive session in November 2014 with most counters on a downward momentum. Ndung'u, a research analyst at Dyer & Blair) observed that there were exits in the securities exchange as the investors feared that the CGT would have an effect on their investment. According to the Business Daily, shares worth Sh3 billion were traded at the Nairobi Securities Exchange (NSE) on Tuesday 16th December 2014, which was more than triple the number traded the previous day as the CGT implementation loomed. (www.businessdailyafrica.com)

1.2 Research Problem

Capital gains and dividends are forms of returns to the shareholders. CGT is charged on capital gains thus reducing the shareholders return. It causes investors to retain

older investments even if more profitable and productive opportunities become available. CGT is thus thought to stifle investment, discourage entrepreneurship, and damage a country's economy which discourages investment in new business ventures as argued by Clemens and Lammam, (2014). Shares trade at higher prices when individual investors face incremental taxes created by selling appreciated shares, while shares trade at lower prices when individual investors face tax savings created by selling depreciated shares (Blouisin et.al., 2000).

Once the announcement to reintroduce CGT was made, investors both the local and the foreign started to react to this announcement. They sold their investments before implementation of the CGT. This saw the NSE 20 Share Index slipping. Thus increased activity in the markets was also observed as investors harvested gains ahead of the tax and this made share prices to go down (www.businessdaily.com). The Kenyan Stock brokers also went on strike and filed a petition against the state on implementation of CGT. In their petition they stated that Kenyan securities exchange has experienced significant growth since the suspension of the CGT in 1985, the establishment of the CDS system and the NSE's automated trading system. They affirmed that the trade volume on the NSE has dropped by over 70% since the announcement of the re-introduction of the CGT. However, the Judge found their petition to lack merit and was dismissed on 20th March 2015 (www. kenyalaw.org).

Globally various researchers have examined the impact of capital gain tax of the stocks and not the announcement effect of the CGT. Most of the researches done have concentrated on the impact of a reduction in the CGT and not an increase. For instance, Zhonglan, Dai & others (2006) examined the impact of reduction of long

term capital gains tax on asset prices. The study tested that the CGT decreases demand (Capitalization effect) and it could also decrease supply (Lock-in effect). They concluded that tax cut increases the trading volume in non-dividend paying stocks during the dominant capitalization week and in stocks with large embedded capital gains and high individual ownership during the dominant lock-in week. Most of these studies have concentrated on the reduction of CGT. Our study will concentrate on the increase of CGT since announcement was to reintroduce it.

Other studies carried out globally on announcement effects have concentrated on the announcement effects of bonus, dividends, mergers and acquisitions and effects of fiscal policy as a whole etc. However, there is no study found to have zeroed in the announcement effect of CGT.

Locally studies carried out have concentrated on the announcement of dividends and earnings and bonus issues. Some of the studies on effects of earnings announcement were carried out by, Mohamed, (2010) and Oyuga, (2014). Other studies assessed the effects of announcements on dividends of listed Companies at the NSE such as Mukora (2014). Oluoch, (2003) assessed the timing effect of earnings announcement on stock returns of companies quoted at the Nairobi Stock Exchange. However, none of the researches have been carried out locally on the announcement effect of CGT on Stock performance in the NSE.

Locally a study on CGT was carried out by Kaisingu (2012), on the effect of capital gains tax on total tax revenue in Kenya. He used data for 1965 to 1994 for analysis in his study which could change the finding due to lapse of time. His conclusion was that

Capital Gain Tax would have a negative and insignificant contribution to total tax revenue. To address all the above gaps identified this study will look at the effect that the announcement of the CGT will have on stock performance

1.3 Research Objective

The objective of the study is to assess the announcement effect of capital gains tax on stock performance at Nairobi Securities Exchange.

1.4 Value of the Study

The study immensely contributed to the existing body of knowledge on the effect of the announcement of capital gains tax on stock performance. It was of great help to scholars and academic researchers who found the conclusions of the study important to enhance their understanding of both the announcement of CGT and capital gains tax and also acted as an opening to further researches on the effects of the capital gains tax and announcement thereof.

The government is responsible for implementing fiscal policies that affect the economy of the country. This study helped the government to understand the effects that the announcement of capital gains tax had and can have in the performance of stocks in the stock market which also serves as gauge of the economy. Thus make ideal decisions when formulating and implementing policies.

The study was of great value to the current and prospective investors who regularly need to make informed decisions. The study educated the investors and general public

on announcement of and/or implementation of capital gains tax and the impact it had have on the supply and demand of stocks which also affected the prices of stock and as a result affect the shareholders returns.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter considers the literature review. It considered three theories which are related to the study followed by the determinants of the stock performance and the empirical review. A conclusion of the literature review concluded the chapter.

2.2 Theoretical Review

The section reviews the theories that guide this study, their originators and implications and also their importance to the study. The theories involved are: Capitalization and Lock-in effect theory, Efficient market Hypothesis and the Random Walk Hypothesis.

2.2.1 Capitalization and Lock-in Effects Theory

According to Lewis (2009), there are mainly two effects of the Capital gain taxes that are observed. These are the “Lock-in effect” and the “Capitalization effect”. The “Lock-in effect” indicates that capital gains taxation decrease supply. This is caused when sellers are required to pay taxes on the capital gains they realise on selling the stock. They thus demand higher prices so that they can still earn desired returns. “Capitalization effect” indicates that capital gains taxes decrease demand for stocks. Since capital gains from stocks are taxed, the buyers of the stock will demand lower prices to compensate the tax payment.

A reduction of the CGT may cause an increase in the demand for stocks since investors will realise higher returns after tax. “Seller’s Shrike” suggest that sellers with large capital gains may refuse to sell their stocks until after the tax is cut (Dai,

Zhonglan, Maydew, Shackelford & Zhang, 2008). This theory will be applicable to this study to demonstrate whether the demand of stock will decrease when the announcement of CGT is done thus the capitalization effect and also the supply of stock will also decrease when CGT is announced thus the Lock-in effect. In effect the stock returns will be minimal due to the Demand and Supply effects.

2.2.2 Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) was developed by Eugene Fama, (1965). An efficient capital market is one in which security prices adjust rapidly to the arrival of new information and, therefore, the current prices of securities reflect all information about the security. The theory states that an efficient market is the one that the securities reflect all the possible information in a timely and accurate manner. The investor considers all the available information in the prices of the securities they are willing to sell or buy (Reilly & Brown, 1999).

There are three forms of market efficiency depending on the information set involved according to Fama are:- Strong, Semi-strong and weak form. Strong form of efficient market hypothesis contends that stock prices fully reflect all the information both private and public. The semi-strong form EMH states that security prices adjust rapidly to the release of all public information. Thus the security prices fully reflect all public information. Weak form of EMH states that the security prices reflect all the historical data. This hypothesis implies that past rates of return and other historical market data should have no relationship with future rates of return and thus the investor should gain little in this form of hypothesis (Reilly & Brown, 1999). This theory will be applicable to this study to demonstrate whether the investors reacted to

the announcement of reintroduction to the CGT and also whether the stock prices will change to reflect the information.

2.2.3 Random Walk Hypothesis

The theory contends that changes in the stock prices occur randomly**.** The hypothesis is that investors react instantaneously to any informational advantages they have thereby eliminating profit opportunities. Thus, prices always fully reflect the information available and no profit can be made from information based trading (Lo and MacKinley, 1999). This leads to a random walk where the more efficient the market, the more random the sequence of price change.

This theory will be applicable to the study to demonstrate whether investors react instantaneously to any informational advantages they have. Where the investors react instantaneously to the information on the introduction of capital gains tax, then there will be no difference between the expected and the actual stocks returns in 30 days after the announcement of CGT.

2.3 Determinants of Stock Performance

This section looks at the various determinants of stock performance. The section discusses the implications and importance of these determinants in the study. Stock returns are dependent on a wide range of factors. It is therefore hard to point out just one factor that solely affects the stock performance. The following are some of the factors that affect stock performance;

2.3.1 Capital Gain Tax

CGT affects stock prices. Capitalization theory predict that share prices will rise when expected future capital gains taxes are reduced.(Collins and Kemsley,1999). This is because investors will invest more and will also attract more investors since more returns will be expected in future. As a result demand will increase resulting to high prices. The Lock-in effects theory state that there will be a decrease in the supply as a result of capital gains tax. This implies that at the announcement of CGT the supply will increase as the investors tend to harvest the accumulated returns.

2.3.2 Demand and Supply of Shares in the Market

Demand and supply of shares affect stock prices just like any other commodity. Increase in demand pushes the stock price up and on the other hand an increase in supply pushes the stock price down (www.ehow.com). This implies that the stock prices decrease on the announcement of CGT as a result of increased supply of stock from investors who wish to harvest their accumulated capital gains before the CGT is effected.

2.3.3 Condition of the Stock Market

During a bear market, investors avoid stocks. This decrease in demand naturally drives the price of stocks lower. During a bull market, investors are more aggressive in buying, which drives the stock price upward (www.ehow.com). This implies that apart from the announcement of CGT the condition of the market will also determine the performance of the stocks in the Nairobi Securities Exchange.

2.3.4 Health of the Company Issuing Stock

Information on health condition of the company affects stock prices, e.g. information of a merger between two companies typically drives the stock price higher, whereas

poor quarterly earnings compel investors to sell the stock resulting to lowering of the price. Thus, the performance of a stock can be tied to the performance of a company (www.ehow.com). This implies that not all the stocks will move together at the same rate. This will depend on the history of the company. For instance companies that have been poorly performing in the past and there is no indication of improving in the future will lead to investors selling their stocks to avoid more losses in the future when CGT is announced.

2.4 Empirical Review

Dai, Zhonglan, Maydew, Shackelford, and Zhang (2008), assessed the effect of Capital Gains Taxes on Asset Prices. They found out that there is capitalization effect that is price increased caused by demand shift upward in the week following news that sharply increased the probability of a reduction in the capital gains tax rate and a dominant lock-in effect that is price decrease caused by supply shift downward in the week after the rate reduction became effective. They stated that the reason for the timing difference is that investors react to changes in the probability of a capital gains tax rate cut before the rates actually fall. Thus buyers increase their demand for stocks in response to the news of future tax cut. Conversely, because capital gains are taxed upon realization, tax sensitive investors are likely to refrain from selling shares with embedded gains until the capital gains tax rate cut becomes effective. This study supports that announcement of CGT has have some effect on the stock prices.

Akindayomi (2013) assessed response of the stock market investments to changes in the tax rate. The study was to establish whether the stock market investments increase or decrease in years when the capital gains tax fall or increase in the United States of America. The study covered a period of 50 years from 1960 to 2009. The findings of

this study indicate that it is the capital gains realization and not CGT rates that impact stock market investments in the U.S.A. This study is in line with the behavioural finance that argue that people often suffer from cognitive and emotional biases and act in a seemingly irrational manner. Traditionally the investors would be expected to act rationally and thus react to any change that would affect stock returns.

Shackelford (2000) assessed the impact of changes in reduction of CGT on equity values when the Long term CGT rate was reduced from 28% to 20% for individuals in May 1997. The lower rate was later restricted to property held for more than 18 months. Investments held for the period between one year and one and a half years was taxed at the high rate of 28%. In 1998, CGT rate of 20% became effective on all purchases held for more than a year. The study found out that the stock prices react to the changes in the capital gains policy. They also reacted quickly to information about tax legislation. The research established that the reaction of the stock prices was material. This study confirms efficient market hypothesis theory where the investors will react to new information and thus impacts the stock prices.

Lewis (2009) stated that the effect of CGT on the price is ambiguous. He stated that any effect on the stock price depends on the stock's ownership characteristics, the stocks dividends and the time period surrounding the tax cut. Most researchers have agreed that a tax rate cut increases the volume of the shares traded for instance (Lewis, 2009). Jana, Douglas and Shackelford (2000) researched on the CGT and stock reaction to quarterly earnings announcement and found out that CGT affect trading even when disclosures are not about taxes. This indicates that the

announcement of CGT will affect the supply and demand of stocks traded and in essence the prices of stocks.

Williams (2001) reviewed the evidence of tax capitalization in the stock prices by putting in consideration how distribution policy affects the magnitude to which dividend and capital gains taxes are impounded into the stock prices. The finding was that both dividend and capital gains taxes reduce stock prices. The study argued that it is expected that taxes reduce after-tax cash flows received by investors and thus stock prices will be negatively related to both dividends and capital gains rates. It is also expected that firms should react to avoid the adverse cash flow effects of the taxes for example by consider share repurchases to alter the magnitude of the capitalization effect. Time series approach to analyse data of 49 years was used.

Muyanga (2014), carried out a study on the effects of fiscal policy on the performance of the Nairobi Securities Exchange. The study used the NSE 20-Share Index to measure the performance of the exchange and carried out a regression on 10 year data from 2004 to 2013 on the fiscal policy instruments that include government debt, expenditure and revenue. Data was analysed using E-views software. In the findings is was stated that fiscal policy has a multi-dimensional role in stock market performance and that government raise revenues through charging taxes which is an indicator of positive economic performance and this in effect affects stock prices thus stock performance. The research concluded that government expenditure and revenue had positive effect on stock market performance compared to government debt which had negative cumulative returns in long run.

Ngigi (2000) carried out a study on assessed the impact of fiscal and monetary policy actions on stock market performance in Kenya. The study sought to find out the impact and what kind of impact both the fiscal and monetary policies have on the performance of the Nairobi Securities Exchange. The study found out that expected monetary policy actions, and unforeseen fiscal policy actions affect the stock market negatively, while the unexpected monetary policy adjustments affect it positively. The study also concluded that the anticipated fiscal policy actions do not have any impact on the stock market performance.

Gupta (2006) studied the impact of earnings announcements on stock prices and investigates the stock market reaction associated with earning announcements in the Indian market, to find out whether the announcements possessed any information value. The study resulted to the conclusion that the Average Abnormal Return (AAR) for good news is greater than zero on the announcements day. The AAR is less than zero on the announcement day for the bad news. It has been observed the price reaction in the case of bad news is much larger than in the case of good news. The results of study indicate that earning announcements contain results to changes in stock prices.

Oyuga (2014), carried a study Carried out a study on effects of earnings announcements on the share price of the companies listed at the NSE. Her objective was to determine whether the earnings announcements generates abnormal returns at NSE and also assess the duration of abnormal returns of firms listed. She sampled 19 listed companies in the NSE. The research used an event period of 17

days 8 days before and 8 days after the announcement. The event study methodology was applied with a descriptive research design .The study resulted to a conclusion that statistically negative abnormal returns were observed in the post and pre earnings announcements of firms listed at the Nairobi Stock Exchange. However the study concluded that stock prices adjust quickly and adequately on announcement of earnings announcement. Thus earnings announcement have a significant effect on the share price.

Mukora (2014), carried a study to determine the effect of dividend announcement on stock returns of firms listed at the Nairobi Securities Exchange. A sample size of five commercial banks was used and used average abnormal returns (AAR) and cumulative average abnormal returns (CAAR) for analysis. The study found out that the average abnormal returns were negative before the announcement date and positive after the announcement date for all the years under study. The study concluded that dividend announcement had a positive effect on stock returns for firms listed at the Nairobi Securities Exchange.

Recently a local study was done on the effect of Capital Gains Tax on the total Revenue in Kenya by Kaisingu, (2012). The study found out that there is very little impact on the total revenue. Data for 1965 to 1994 for analysis was used in the study. The study concluded that CGT would have a negative and insignificant contribution to total tax revenue.

2.5 Summary of Literature Review

From the above literature review, it is evident that the studies support that any announcement affecting the stock market tend to have an effect on the stock prices and returns. The announcements may be in form of earnings announcements,

dividend announcement and tax legislation among others. Thus the studies support the Efficient Market Hypothesis Theory. The studies indicate that the investors react to new information in the market and thus cause the share prices to change. However the way share prices change depends on whether the news are good or bad.

The studies on the effect of fiscal policy agree that fiscal policies affect stock markets. However they disagree on how the stock markets are effected. Some state that some fiscal policy instruments such as government expenditure and revenue had positive effect on stock market performance while government debt has negative effects. Others state that its only unforeseen fiscal policy actions that affect the stock market and in this case negatively but the anticipated fiscal policy actions have no impact

Studies have also been carried out on CGT. However most of them concentrate on a reduction of CGT. Most of the studies agree that the stock prices react to the changes in the capital gains policy. However some studies state that it is the realization of capital that affect stock markets and not the Capital Gains Tax rates that impact stock market investments. Other state that effect on the stock price depends on other factors such as stock's ownership characteristics, the stocks dividends and the time period surrounding the tax cut. Most agree that stock prices reacted quickly to information about tax legislation. It is notable that very few studies on the CGT have been carried out locally and none has concentrated on the announcement of CGT.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The objective of the study was to establish the announcement effect of capital gains tax on stock performance at NSE. This chapter explains the overall methodology that was used to collect the data to meet the objectives of the study. It explains research design, population, sample design, data collection, analysis and representation.

3.2 Research Design

The study used descriptive design. The descriptive design method was considered suitable since the study acquired a lot of information through description. This assisted in adequately address the objective of the study. The study examined the daily stock trends 15 days before and 15 days after 19th September 2014 when reintroduction of CGT was announced and gazetted. An estimation period prior to the event window of 25 days was used.

3.3 Population

The target population was the 64 companies listed at Nairobi Securities Exchange (See Appendix I).

3.4 Sample Design

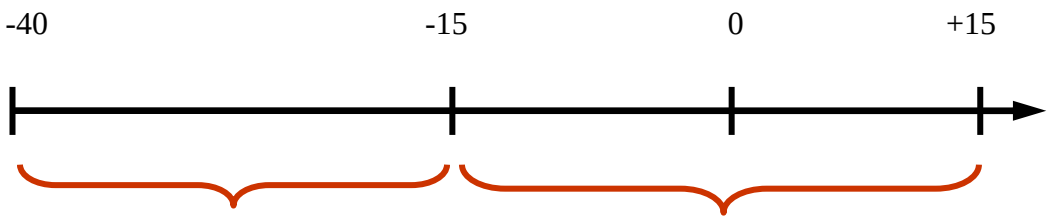
The study considered all the companies that were continuously trading in the NSE during the study period. The sample excluded the companies that were listed in the NSE for the first time during the period. (See Appendix II)

3.5 Data Collection

The study used secondary data which was obtainable from the Nairobi Securities Exchange database. The researcher collected daily stock prices for all the sampled stocks and the daily NSE 20 Index. The data obtained covered the period from 24th July 2014 to 10th October 2014.

3.6 Data Analysis and Pesentation

The study was an event study following the standard methodology of event studies. The data was analysed using Ms Excel and SPSS. The event period was 31 days (-15 to +15) i.e. 15 days before the event and 15 days after the event with the event day being 0. An estimation window of 25 days prior to the event period was used to derive α and β for the purpose of deriving expected returns.



Estimation Window Event Window

Daily stock returns of each sampled stock was calculated for the period running from 29th August 2014 to 10th October 2014 using the formula below

$$R_{it} = \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}}$$

Where R_{it} =Daily stock Return

P_t = stock price at the end of the day

P_{t-1} = Stock price at the start of the day

D_t = Dividend paid

Then expected return of each security was calculated as follows:

$$\mathbf{ER_{it,}} = \boldsymbol{\alpha}_{\mathbf{i}} + \beta_{\mathbf{i}}\mathbf{R_{mt}} + \mathbf{e_{it}}$$

Where

ER_{it} = expected return of the security i in period t

α_i = the alpha (the intercept of the characteristic line on the vertical axis.

β_i = Beta (slope characteristic line) that depicts the sensitivity of the security's excess returns to that of the market portfolio.

R_{mt} = Market return in period t.

e_i = the unsystematic risk (avoidable risk).

Alpha (α) and Beta (β) were calculated using data from the estimation window. The total risk of a portfolio is reduced by efficient diversification to the point where only systematic risk remains. Thus investors are only compensated for systematic risk hence the equation will be reduced to:

$$\mathbf{ER_{it}} = \boldsymbol{\alpha}_{\mathbf{i}} + \beta_{\mathbf{i}}\mathbf{R_{mt}}$$

Daily Abnormal Returns (AR) was then calculated using the formula below:

$$\mathbf{AR_{it} = R_{it} - ER_{it}}$$

Where AR_{it} = Abnormal Returns of the security i in period t

R_{it} = Actual Returns of the security i in period t

ER_{it} = expected return of the security i in period t

Average abnormal returns per day was calculated using the formula below:

$$\mathbf{AAR_t} = \frac{\mathbf{1}}{\mathbf{n}} \sum_{\mathbf{t=1}}^{\mathbf{n}} \mathbf{ARt}$$

Where AAR = Average abnormal returns

n = Number of securities at that particular day

AR= Abnormal Returns in period t

Cumulative average abnormal return for the whole market was then aggregated as follows:

$$\mathbf{CAAR} = \sum_{\mathbf{t=1}}^{\mathbf{n}} \mathbf{AAR}$$

Where CAAR = Cumulative average abnormal returns

AAR = Average abnormal returns

The paired t-test was used to measure the level of significance of stock performance before and after the announcement date of CGT for both AAR and CAAR.

The hypothesis test is as below:

Null hypothesis: There is no variation in stock performance for the period before and after the announcement of capital gains tax.

Alternative hypothesis: There is a variation in stock performance for the period before and after the announcement of capital gains tax.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

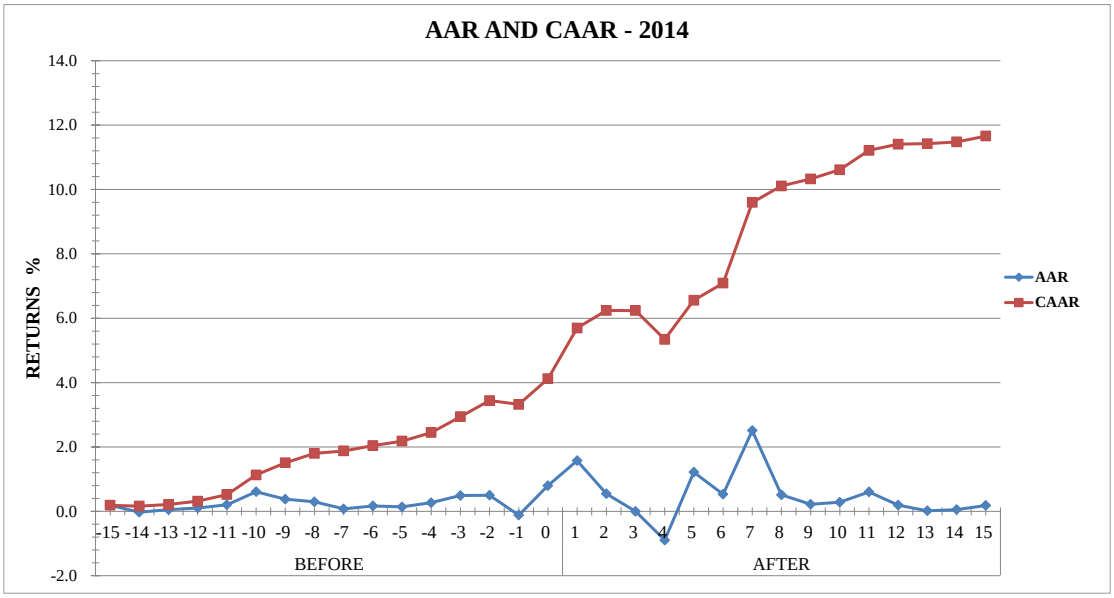
4.1 Introduction

This chapter focuses on the analysis and interpretation of the data that was collected for the study based on the objective of this study which is to assess the announcement effect of capital gains tax on stock performance at the Nairobi securities exchange. The study focused on the market segments using 57 companies sampled over the study period. The data used comprised of the daily stock prices and daily NSE 20 Index for the period.

4.2 Descriptive Statistics

The average abnormal returns and the cumulative average abnormal returns were derived from the resulting abnormal returns that were calculated from the daily and expected returns. They were then plotted on a graph and the following are the results of the analysis.

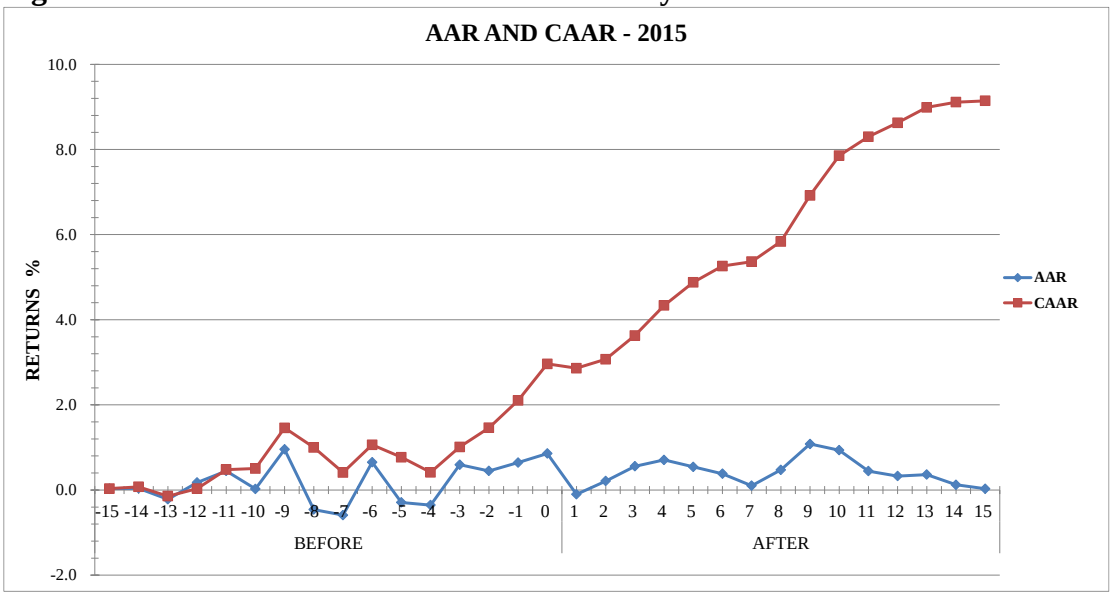
Figure 1 Trend of AAR and CAAR for the year 2014



Source: research findings

From figure 4.1 above, the average abnormal returns were very close to zero for the period before the announcement date. Immediately after the announcement date AAR fluctuated up for a day then down up to day 4 when the only negative return of about -1% was observed. More fluctuations were observed between day 4 and day 8 with a peak of 2.5% on day 7. The trend stabilised from day 8 onwards. CAAR graph smoothly moved upwards form day -15 to day -1. There was a slight upsurge from day -1 to day 1 then slowed downwards to day 4 when a very sharp upsurge took place up to day 7. The trend stabilised from day 8 onwards.

Figure 2 Trend of AAR and CAAR for the year 2015



Source: research findings

From figure 4.2 above the AAR graph fluctuated up and down before the announcement date. Immediately after the announcement date the AAR dropped to zero then the graph moved in a smooth manner. There are instances where the average abnormal returns were negative before the announcement date. All the AAR after the announcement date are positive. CAAR was positive throughout the period under

study. However between day -10 to day -4 slight fluctuations occurred. CAAR increased throughout the period but increased more after the announcement date.

4.3 Inferential Statistics

The study used SPSS software to run the paired t-test of significance for average abnormal returns for the period before and after the announcement date.

4.3.1 Test of Significance of AAR for year 2014

Paired t-test of significance was calculated and the findings were as below.

Table 1 Paired Samples Statistics of AAR for year 2014

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	AAR Before	.2214	15	0.2046	0.0528
	AAR After	.5027	15	0.7871	0.2032

Source: research findings

Table 1 indicates that the AAR mean of 0.5 for the period after the announcement date was more than twice that of the period before the announcement date. AAR mean for the period before the announcement date was 0.22. This means that the average abnormal returns significantly increased after the announcement date.

Table 2 Paired Samples Test of AAR for year 2014

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	AAR Before – AAR After	-.2812	.7775	.2008	-.7118	.1494	-1.4008	14	.183

Source: research findings

The paired t-test statistics was calculated with 5% level of significance. The t- test value was -1.4 which lies on the rejection area which is beyond the lower limit -0.7 and upper limit of 0.14. Hence the rejection of the null hypothesis that states there is no variation of stock performance before and after the announcement of CGT. The study therefore adopts the alternative hypothesis that states there is variation of stock performance before and after the announcement of CGT.

4.3.2 Test of Significance of AAR for year 2015

Paired t-test of significance was calculated and the findings were as below.

Table 3 Paired Samples Statistics of AAR for year 2015

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	AAR Before	.1404	15	0.4678	0.1208
	AAR After	.4120	15	0.3263	0.0843

Source: research findings

Table 3 above indicates that the AAR mean of 0.41 for the period after the announcement date was almost four times more than the one for the period before the announcement date. The AAR mean for the period before the announcement date was 0.14. This means that the average abnormal returns for the period after the announcement date is significantly higher than the one after the announcement date.

Table 4 Paired Samples Test of AAR for year 2015

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	AAR Before - AAR After	-.2716	.6534	.1687	-.6335	.0902	-1.6099	14	.130

Source: research findings

The paired t-test statistics was calculated with 5% level of significance. The t- test value was -1.61 which lies in the rejection area. The lower limit is -0.63 and upper limit is 0.09. Hence the null hypothesis is rejected in favour of the alternative hypothesis that states there is variation of stock performance before and after the announcement of CGT.

Table 5 Paired Samples Statistics of CAAR for year 2014

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	CAAR Before	1.6051	15	1.1513	0.2973
	CAAR After	4.8806	15	2.4628	0.6359

Source: research findings

Table 5 above indicates that the CAAR mean of 4.8 for the period after the announcement date was more than three times higher than the one for the period before the announcement date of 1.6. This means that thecummulative average abnormal returns for the period after the announcement date is significantly higher than the one after the announcement date.

Table 6 Paired Samples Test of CAAR for year 2014

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	CAAR Before – CAAR After	-3.2755	1.4175	.3660	-4.0605	-2.4905	-8.9497	14	.000

Source: research findings

The paired t-test statistics was calculated with 5% level of significance. The t- test value was -8.9 which lies on the rejection area which is beyond the lower limit -4.0 and upper limit of -2.4. Hence the rejection of the null hypothesis that states there is no variation of stock performance before and after the announcement of CGT. The study therefore adopts the alternative hypothesis that states there is variation of stock performance before and after the announcement of CGT.

Table 7 Paired Samples Statistics of CAAR for year 2015

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	CAAR Before	.7115	15	0.6380	0.1647
	CAAR After	3.3170	15	2.2808	0.5889

Source: research findings

Table 7 above indicates that the CAAR mean for the period after the announcement date was more than the one for the period before the announcement date. CAAR mean for the period after the announcement is 3.3 which is more than two times higher than that of before the announcement of 0.7. This means that the cummulative

average abnormal returns for the period after the announcement date is significantly higher than the one after the announcement date

Table 8 Paired Samples Test of CAAR for year 2015

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	CAAR Before – CAAR After	-2.6056	1.8854	.4868	-3.6496	-1.5615	-5.3525	14	.000

Source: research findings

The paired t-test statistics was calculated with 5% level of significance. The t- test value of -5.3 lies on the rejection area which is beyond the lower limit -3.6 and upper limit of -1.5. Hence the rejection of the null hypothesis that states there is no variation of stock performance before and after the announcement of CGT. The study therefore adopts the alternative hypothesis.

4.4 Discussion of the Findings

From the analysis done, the CAAR graph went up gradually. This indicates there were positive average abnormal returns after the announcement of CGT. This shows that the stock prices adjusted on the announcement of CGT.

From the analysis, both the AAR and CAAR mean for the period after the announcement date was found to be significantly greater than AAR and CAAR mean for the period before the announcement of CGT. This implies that the abnormal

returns for the period before the announcement date were lower than those after the announcement date. This is a pure indication that the announcement of CGT had an effect on the stock returns and hence stock performance. Essentially the share prices were positively affected by the announcement of the CGT. Hence share prices increased resulting to higher abnormal returns. This is also supported by the test of significance.

The paired t-test of significance carried out indicates rejection of the null hypothesis and adoption of the alternative hypothesis. The null hypothesis states that there is no variation in stock performance for the period before and after the announcement of capital gains tax. The alternative hypothesis states that there is a variation in stock performance for the period before and after the announcement of capital gains tax. The t-test showed that performance of the shares in the period before the announcement is different from the period after the announcement date. In this case the shares performed better after the announcement of capital gains tax.

The findings agree with Shackelford (2000), that the stock prices react to the changes in the capital gains policy and they also reacted quickly to information about tax legislation. The findings also support Oyuga (2014), that stock prices adjust quickly and adequately on announcements.

The finding contradicts with the study done by Dai, Zhonglan, Maydew, Shackelford, and Zhang (2008), that there is capitalization effect. That is, price increase caused by demand shifting upward in the week following news of a reduction in the capital gains

tax rate. The study by Williams (2001), found out that both dividend and capital gains taxes reduce stock prices. This contradicts with our finding.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMEDATIONS

5.1 Introduction

This chapter presents the key findings, conclusions, limitation of the study and suggestions of further study.

5.2 Summary of Findings

The objective of the analysis was to determine whether the announcement of capital gains tax has an effect on stock returns of firms listed at the Nairobi Securities Exchange. Secondary data was collected for 57 companies listed in the NSE. The data collected comprised of daily stock prices, dividends paid and daily NSE 20 index. The AAR and the CAAR were derived from the resulting AR that was calculated from the daily actual and expected returns. AAR and CAAR were then plotted on a graph. Paired t-tests for both AAR and CAAR were done with 5% level of significance.

There were fluctuations of average abnormal returns around the announcement date. Both AAR and CAAR mean for the period after the announcement date was higher than those of the period before the announcement date. The CAAR graph moved upwards though the incline was higher after the announcement date compared to the period before. CAAR was positive throughout the period under study. The t- test value lied in the rejection area and thus the null hypothesis was rejected. This is an indication that the investors reacted to the announcement which in effect affected the stock returns, hence stock performance.

5.3 Conclusion and Recommendation

There were fluctuations of AAR around the announcement date. This implies that there was a reaction to the news towards the reintroduction of CGT. AAR and CAAR mean for the period after the announcement date was higher than those of the period before the announcement date .This indicates that average abnormal returns increased after the announcement of CGT. This is also be supported by in upward movement of CAAR graph.

The test of significance rejected the null hypothesis and instead adopted the alternative hypothesis. This therefore means that the there was a difference in the performance of the stocks before and after the announcement and in this case stocks performed better after the announcement of CGT as supported by all the findings. Therefore the study concludes that the announcement of capital gains tax had a positive effect on the performance of stocks at the Nairobi Securities Exchange.

The study recommend to that the Government involves all stakeholders at when formulating fiscal policies in this case the capital gains tax. It was found out that some of the stakeholders reacted by instituting a legal petition against the reintroduction of CGT although the case was said to have no merit. The study also found out that even after the announcement of the reintroduction of CGT, it was never implemented and had to be replaced with another tax of lower rate.

Based on the resistance that resulted to replacement of CGT with a lower rate withholding tax investors also need to be sensitized on the benefits of any fiscal policy that the government intends to implement at any particular time. This will

avoid resistance to the implementation like in the case above and the government will achieve its objective.

5.4 Limitation of the Study

The time factor to carry out the research was limiting. The study required a lot of data consolidation, analysis and descriptions. This is because the format in which data at the NSE was represented could not be analysed in that format. It had to be rearranged. For example incomplete data on dividends was provided and was repeated on various trading days.

The Capital gains tax was being reintroduced in Kenya after 30 years of suspension. Therefore for the last 30 years few studies had been carried out locally on the effects of capital gains tax and those carried out used data for over 30 years ago. Thus effects of CGT could only be relied with the studies carried globally on other stock markets as no current local studies on NSE were available.

The research was intended to use data for all the firms listed in the Nairobi Securities Exchange however some of the companies were delisted during the period under study while others were listed in between the study period and thus were not included in the study.

5.5 Areas of Further Study

The study found out that the announcement of CGT affected the stock performance at the Nairobi Securities Exchange. The study did not look at how each market segment reacted. Thus there is need to compare the effects of the announcement of capital

gains tax on each market and compare them to see how each was affected and which was affected most.

Although capital gains tax was not implemented; it was replaced with a lower tax of 0.5 % as withholding tax on share value transactions. A further study can be carried out to assess the performance of stock before and after the announcement of Capital Gains Tax replacement at the Nairobi securities Exchange.

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APPENDICES

APPENDIX I: LIST OF FIRMS LISTED IN THE NSE

	Agricutural		**Energy & Petroleum**
1	Eaagards Ltd	34	KenGen Co. Ltd
2	Kakuzi Ltd	35	KenolKobil Ltd
3	Kapchorua Tea Co. Ltd	36	Kenya Power & Lighting Co Ltd
4	The Limuru Tea Co. Ltd	37	Total Kenya Ltd
5	Rea Vipingo Plantatons	38	Umeme Ltd
6	Sasini Ltd		**Insurance**
7	Williamson Tea Kenya Ltd	39	British-American Investments Co.(Kenya) Ltd
	Bankings	40	CIC Insurance Group Ltd
8	Barclays Bank of Kenya Ltd	41	Jubilee Holdings Ltd
9	CFC Stanbic of Kenya Holdings Ltd	42	Kenya Re Insurance Corporation Ltd
10	Diamond Trust Bank Kenya Ltd	43	Liberty Kenya Holdings Ltd
11	Equity Group Holdings Ltd	44	Pan Africa Insurance Holdings Ltd
12	Housing Finance Co.Kenya Ltd		**Investment**
13	I&M Holdings Ltd	45	Centum Investment Co Ltd
14	Kenya Commercial Bank Ltd	46	Home Afrika Ltd
15	National Bank of Kenya Ltd	47	Kurwitu Ventures Ltd
16	NIC Bank Ltd	48	Olympia Capital Holdings Ltd
17	Standard Chartered Bank Kenya Ltd	49	Trans-Century Ltd
18	The Co-operative Bank of Kenya Ltd		**Investment Services**
	Commercial & Services	50	Nairobi Securities Exchange
19	Altlas Development & support Services		**Manufacturing & Allied**
20	Express Kenya Ltd	51	A. Baumann & Co. Ltd
21	Hutchings Biemer	52	B.O.C Kenya Ltd
22	Kenya Airways Ltd	53	British American Tobacco Kenya Ltd
23	Longhorn Kenya Ltd Ord	54	Carbacid Investments Ltd
24	Nation Media Group Ltd	55	East African Breweries Ltd
25	Standard Group Ltd	56	Eveready East Africa Ltd
26	TPS Eastern Africa Ltd	57	Flame Tree Group Holdings
27	Uchumi Supermarket Ltd	58	Kenya Orchards
28	Scangroup Ltd	59	Mumias Sugar Co. Ltd
	Construction & Allied	60	Unga Group Ltd
29	ARM Cement Ltd		**Telecommunication & Technology**
30	Bamburi Cement Ltd	61	Safaricom Ltd
31	Crown Paints Kenya Ltd		**Automobiles & Accessories**
32	E.A.Cables Ltd	62	Car & General (K) Ltd
33	E.A.Portland Cement Co. Ltd	63	Marshalls (E.A.) Ltd
		64	Sameer Africa Ltd

Source:www.nse.co.ke

APPENDIX II: LIST OF FIRMS SAMPLED

	Agricutural		**Construction & Allied**
1.	Eaagards Ltd	30.	ARM Cement Ltd
2.	Kakuzi Ltd	31.	Bamburi Cement Ltd
3.	Kapchorua Tea Co. Ltd	32.	Crown Paints Kenya Ltd
4.	The Limuru Tea Co. Ltd	33.	E.A.Cables Ltd
5.	Sasini Ltd	34.	E.A.Portland Cement Co. Ltd
6.	Williamson Tea Kenya Ltd		**Energy & Petroleum**
	Automobiles & Accessories	35.	KenGen Co. Ltd
7.	Car & General (K) Ltd	36.	KenolKobil Ltd
8.	Marshalls (E.A.) Ltd	37.	Kenya Power & Lighting Co Ltd
9.	Sameer Africa Ltd	38.	Total Kenya Ltd
	Bankings	39.	Umeme Ltd
10.	Barclays Bank of Kenya Ltd		**Insurance**
11.	CFC Stanbic of Kenya Holdings Ltd	40.	British-American Investments Co.(Kenya) Ltd
12.	Diamond Trust Bank Kenya Ltd	41.	CIC Insurance Group Ltd
13.	Equity Group Holdings Ltd	42.	Jubilee Holdings Ltd
14.	Housing Finance Co.Kenya Ltd	43.	Kenya Re Insurance Corporation Ltd
15.	I&M Holdings Ltd	44.	Liberty Kenya Holdings Ltd
16.	Kenya Commercial Bank Ltd	45.	Pan Africa Insurance Holdings Ltd
17.	National Bank of Kenya Ltd		**Investment**
18.	NIC Bank Ltd	46.	Centum Investment Co Ltd
19.	Standard Chartered Bank Kenya Ltd	47.	Olympia Capital Holdings Ltd
20.	The Co-operative Bank of Kenya Ltd	48.	Trans-Century Ltd
	Commercial & Services		**GEMS**
21.	Express Kenya Ltd	49.	Home Afrika Ltd
22.	Kenya Airways Ltd		**Manufacturing & Allied**
23.	Longhorn Kenya Ltd Ord	50.	B.O.C Kenya Ltd
24.	Nation Media Group Ltd	51.	British American Tobacco Kenya Ltd
25.	Standard Group Ltd	52.	Carbacid Investments Ltd
26.	TPS Eastern Africa Ltd	53.	East African Breweries Ltd
27.	Uchumi Supermarket Ltd	54.	Eveready East Africa Ltd
28.	Scangroup Ltd	55.	Kenya Orchards
	Telecommunication & Technology	56.	Mumias Sugar Co. Ltd
29.	Safaricom Ltd	57.	Unga Group Ltd

Source:www.nse.co.ke

APPENDIX III: DATA COLLECTION FORM

Company Name :_____					
	Daily Stock price			NSE 20 share Index	
Day	Opening Price	Closing Price	Dividend paid	Opening Price	Closing Price
-15					
-14					
-13					
-12					
-11					
-10					
-9					
-8-					
-7					
-6					
-5					
-4					
-3					
-2					
-1					
0					
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					

APPENDIX IV: AR, AAR AND CAAR FOR 2014

AR, AAR AND CAAR 2014				
PERIOD	**DAY**	**TOTAL AR**	**AAR**	**CAAR**
BEFORE	-15	10.7028	0.1878	0.1878
	-14	-1.5553	-0.0273	0.1605
	-13	2.8942	0.0508	0.2113
	-12	5.9331	0.1041	0.3153
	-11	11.6424	0.2043	0.5196
	-10	34.7312	0.6093	1.1289
	-9	21.4786	0.3768	1.5057
	-8	16.7159	0.2933	1.7990
	-7	4.3301	0.0760	1.8750
	-6	9.5433	0.1674	2.0424
	-5	7.8902	0.1384	2.1808
	-4	15.2174	0.2670	2.4478
	-3	28.0708	0.4925	2.9403
	-2	28.5027	0.5000	3.4403
	-1	-6.7703	-0.1188	3.3215
	0	45.4899	0.7981	4.1196
AFTER	1	89.7792	1.5751	5.6947
	2	31.1093	0.5458	6.2404
	3	-0.0796	-0.0014	6.2390
	4	-51.0788	-0.8961	5.3429
	5	69.2541	1.2150	6.5579
	6	30.2988	0.5316	7.0895
	7	143.0133	2.5090	9.5985
	8	29.2060	0.5124	10.1109
	9	12.4118	0.2178	10.3286
	10	16.2370	0.2849	10.6135
	11	34.3093	0.6019	11.2154
	12	11.0562	0.1940	11.4094
	13	0.8935	0.0157	11.4250
	14	2.9936	0.0525	11.4776
	15	10.3652	0.1818	11.6594

Source: Research findings

APPENDIX V: AR, AAR AND CAAR FOR 2015

AR, AAR AND CAAR 2015				
PERIOD	**DAY**	**TOTAL AR**	**AAR**	**CAAR**
BEFORE	-15	1.9254	0.0338	0.0338
	-14	2.2780	0.0400	0.0737
	-13	-12.4334	-0.2181	-0.1444
	-12	9.9771	0.1750	0.0307
	-11	25.5362	0.4480	0.4787
	-10	1.5106	0.0265	0.5052
	-9	54.3935	0.9543	1.4594
	-8	-26.2170	-0.4599	0.9995
	-7	-33.5745	-0.5890	0.4105
	-6	37.1560	0.6519	1.0623
	-5	-16.6520	-0.2921	0.7702
	-4	-20.1958	-0.3543	0.4159
	-3	33.9295	0.5953	1.0111
	-2	25.5887	0.4489	1.4600
	-1	36.7780	0.6452	2.1053
	0	48.8105	0.8563	2.9616
AFTER	1	-5.7318	-0.1006	2.8610
	2	12.0292	0.2110	3.0721
	3	31.7419	0.5569	3.6289
	4	40.3190	0.7074	4.3363
	5	30.9347	0.5427	4.8790
	6	21.7716	0.3820	5.2610
	7	5.8324	0.1023	5.3633
	8	27.0405	0.4744	5.8377
	9	61.6708	1.0819	6.9196
	10	53.2732	0.9346	7.8542
	11	25.3141	0.4441	8.2984
	12	18.7103	0.3283	8.6266
	13	20.6119	0.3616	8.9882
	14	7.0280	0.1233	9.1115
	15	1.7050	0.0299	9.1414

Source: Research findings