ICIFA
INSTITUTE OF CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS

INVESTMENT REVIEW

A JOURNAL OF THE INSTITUTE OF CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS

ISSUE NO. 8 | JUNE 2021

MAIN STORY
Page 10

TIME TO MOVE FROM DISPLAY OF SOCIAL STATUS TO FINANCIAL INDEPENDENCE

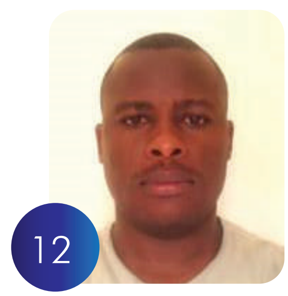
ICIFA
INSTITUTE OF CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS

INVESTMENTREVIEW
A JOURNAL OF THE INSTITUTE OF CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS

Table of Contents

FA Diana Muriuki - Maina
C.E.O, ICIFA

FA Daniel Nzioki
Member, ICIFA



FA Moses Ananga
Member, ICIFA

FA Purity Mugambi
Member, ICIFA

FA Wachira Ngoima
CISA

WHO WE ARE

Institute of Certified Investment and Financial Analysts

ICIFA is the professional Investment and Financial Analysts' body mandated by law to regulate the Investment and Financial Analysis profession in Kenya, being the only body authorized by law to register and grant practicing certificates to Certified Investment and Financial Analysts (CIFAs) in Kenya both in private and public practice under the Investment and Financial Analysts Act (No.13 of 2015).

We are dedicated to providing region-wide network and promoting the role of the profession in the fields of investment and financial analysis, pension funds, asset management, corporate finance, investment and finance training, fund management, financial advisory, wealth management, real estate investment, insurance investment advisory, capital markets operations, and investment banking among others.

ICIFA provides highly skilled, competent, competitive professional expertise in all sectors in the investment and finance industry.

We are globally affiliated to Association of Certified International Investment Analyst (ACIIA) based in Switzerland, the African Securities Exchange Association (ASEA) and the Association of Professional Societies in East Africa (APSEA).

The examination body for Certified Investment and Financial Analysts Examination is Kasneb.

VISION STATEMENT

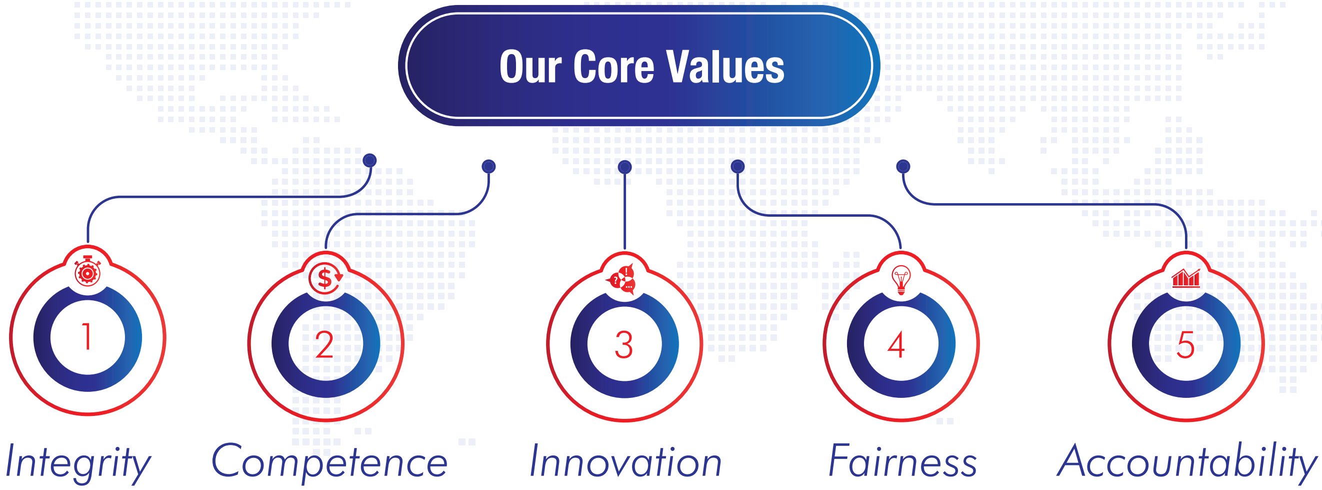
The leading institute for investment and finance professionals.

MISSION STATEMENT

To promote excellence and professionalism amongst our members and the financial industry.

ICIFA will advance its mission through:

- Enforcing licensing and compliance with the IFA Act, ICIFA code of conduct and all the relevant By Laws.
- Training of highly skilled professionals for the financial markets.
- Provision of financial advisory and placement services to the financial markets.
- Collaborations and partnerships with other stakeholders in financial markets.



The core values to guide ICIFA are:

Integrity

To uphold transparency and trust in all our dealings with stakeholders.

Competence

We expect our members to conduct their activities successfully and efficiently as professional investment and financial analysts.

Innovation

We shall be alive to new ideas in order to adapt to the changing environment given the dynamic nature of the financial services industry.

Fairness

Fairness in matters of dealing with members.

Accountability

We are obliged to account for activities, accept responsibility for our action and conduct our operations in a transparent manner.

FUNCTIONS OF THE INSTITUTE

Under The Investment And Financial Analysts Act, 2015

1. To promote standards of professional competence and ethical practise amongst members of the Institute.

2. To promote research into the subjects of the securities and investments and related matters, and the publication of books, periodicals, journals and articles in connection therewith.

3. To promote the International recognition of the Institute.

4. To advise the regulator for the time being responsible for capital markets in respect of licensing investment and financial analysts.

5. To advise the Examinations Board on matters relating to examinations standards and policies.

6. To design and administer an initial ethics and integrity test for the purpose of determining the professional suitability of all its members and to subsequently design and undertake such continuous development programs for its members.

7. To carry out any other functions prescribed for it under any of the other provisions of the Act or any other written law.

Institute of Certified Investment and Financial Analysts

Kasneb Tower II, 5th floor

Hospital Road Upper Hill Nairobi, Kenya

P.O Box 48250-00100

+254 726 498698 | +254 748 174914 | +254 786 994091

info@icifa.co.ke | membershipservices@icifa.co.ke

CONNECT WITH US ON SOCIAL MEDIA

Institute of Certified Investment and Financial Analysts

Institute of Certified Investment and Financial Analysts

Institute of Certified Investment and Financial Analysts

@icifakenya

@icifa_ke

COUNCIL MEMBERS

NAME	DESIGNATION
FA Einstein Kihanda	Chairperson
FA Leah Nyambura	Vice Chairperson
CPA Judith Nyakawa	Member
FA Edwin Njamura	Member
FA Dr. Nicholas Letting	Member
FA Geoffrey Odundo	Member
FA Catherine Karita	Member
FA Patricia Kiwanuka	Member
FA Dr. Duncan Elly Ochieng'	Member
FA Anthony Mwithiga	Member
FA Margaret Kibera	Member
FFA Lazarus Kimang'a	Chairman, Registration Committee
FFA Nguru Wachira	Chairman, Disciplinary Committee
FA Diana Muriuki-Maina	CEO & Secretary to the Council

EDUCATION & RESEARCH COMMITTEE

NAME	DESIGNATION
FA Dr. Duncan Elly Ochieng'	Chairperson
FA Isaac Njuguna	Vice Chairperson
FA Margaret Kibera	Member
FA Peter Anderson	Member
FA Dr. Robert Mugo	Member
FA Eric Munywoki	Member
FA Jackline Onyango	Member
FA Geoffrey Injeni	Member
Tony Juma	Research Officer

ICIFA SECRETARIAT

FA Diana Muriuki-Maina
Sammy Yegon
CPA Cyprian Sila
Tony Juma
Carol Kiruki
Victoria Irungu

ICIFA Council Members Year 2021/2022

ICIFA 2nd Strategic Plan 2021 - 2025

ICIFA 4th Annual Conference 2021

WORD FROM THE C.E.O

FA Diana Muriuki - Maina

COMMON RED FLAGS TO WATCH OUT FOR BEFORE GIVING YOUR MONEY TO INVESTMENT FUNDS

In the wake of an increase in fraudulent investment funds, investor confidence in Kenya seems to be waning by the day. Every so often, media carries stories of investors who have lost their hard-earned money through fraudulent investment funds crafted to deliberately swindle them.

Kenyans are no longer sure which investment fund is trustworthy enough for them to invest in. They also do not know which funds are licensed and regulated by the regulatory authorities.

More than ever before, Kenyan investors need to be educated and to be given the right information on how to approach investment funds, and professionals to use, if they are to avoid premium tears later.

It is important that investors be made aware early enough, and in a consistent manner, of critical investment fraud red flags before investing their hard-earned money.

Some of the more common red flags include unlicensed investment people involved in managing investment funds, extraordinarily higher returns than market rate that sound too good to be true, lack of details or understanding of the type of investments in the investment fund and lack of adherence to risk management practices. Another red flag is investing money with unlicensed and unregulated funds.

Let's focus on why investors must be keen on ensuring licensed investment professionals are managing the investment funds.

There are myriad investment funds who will convince prospective investors that they have licensed investment professionals involved in managing the investment funds when that is not the case.

More often than not, Kenyans are always in a rush to make money and trust these funds with unlicensed individuals either because they know them or they were introduced to them by trusted persons.

As such, they never do due diligence to check the professional credentials of the purported "professionals", trusting that the funds will be able to get them super returns as promised.

In Kenya, the Institute of Certified Investment and Financial Analysts (ICIFA) is the only professional body mandated by the Investment and Financial Analysts Act, No. 13 of 2015 (IFA Act) to register and license investment and financial professionals both in public and private sectors.

In accordance with section 20 and 21 of the IFA Act, persons who offer investment advice, particularly heads of investment departments and in the practice of investment and financial analysis, are required to be registered by ICIFA.

The practising members of ICIFA are duly recognised by law as registered and licensed investment professionals.

It is critical for the investing public to note that ICIFA members are required to comply with the standards of professional competence and ethical practice in accordance with the ICIFA code of ethics and, therefore, enhance professionalism in the management of investment funds and boost investor confidence.

Investors must be vigilant and extremely cautious when putting money in investment funds managed by unregistered and unlicensed individuals due to the high risk of lack of accountability and integrity in managing and controlling investors' funds.

ICIFA members who manage investment funds are required to follow ethical and professional standards.

In the event of any complaints from investors, ICIFA has in place disciplinary mechanisms to inquire into its members' professional misconduct in accordance with section 26 of the IFA Act.

Given that the investment market in Kenya has become quite vibrant, with some players in the market promising high and sometimes unrealistic returns, investors must now start asking hard questions about the credentials of purported professionals before investing in various investment funds.

Most important, Kenyans must ask if the investment fund is managed by registered and licensed investment professionals, and demand proof.

If the investment fund is unable to provide details of investment professionals involved in managing the fund and is unable to give proof of registration by ICIFA, this is a red flag. Investors can also approach ICIFA to verify if the investment fund has licensed investment professionals involved in the management of the fund.

ICIFA's mandate includes ensuring that licensed investment professionals are involved in managing investment funds thus safeguarding Kenyans' investments.

FA Diana Muriuki-Maina
Chief Executive Officer

MAIN STORY

TIME TO MOVE FROM DISPLAY OF SOCIAL STATUS TO FINANCIAL INDEPENDENCE

FA Daniel Nzioki

The current pandemic brought an economic toll that could not be predicted by any traditional or scientific means. So, if you worry about your financial decision at this time, you are not alone. Official statistics indicate that household savings have increased on average, and total household debt is still static[1].

Yet, with these statistics, low-income households, where most of the world population lies, have depleted savings and increased debts since the start of the pandemic. If the Covid-19 pandemic has taught us anything, it is that life is unpredictable. One time you could be comfortable with your current income and get interrupted, leaving you in financial distress.

Before the pandemic hit the globe, much of the expenditure went on swathe services. The United States spent $10 trillion on parties in 2019; as the pandemic hit the world, expenses went to stocking food and other essentials[2]. Suffice it to say; Covid-19 has exposed the consumerism culture of many people the world over.

Shockingly, most people have been perilously operating one crisis away from financial ruin. Unfortunately, it is this consumerism behavior that has kept low-income earners from attaining financial freedom. Our generation consists of unfettered spenders living extravagant lives.

This behavior has held us hostage to our lifestyle and forced us into a rat race, constant tug-of-war between a luxurious lifestyle and work, a

Strategies To Move from Social Status to Financial Independence

merry-go-round of work for income, income for lifestyle, and lifestyle for work. Hence, no investments, appreciating assets, or income - producing assets to support such lifestyle.

Wealth is not embodied in material possession but in the freedom to know that you can afford it. The irony of looking wealthy is that it's an enemy to real wealth. Perhaps we might attain the liberty we desire if we widen the gap between our ego and our income levels.

With the covid-19 here with us longer than anticipated, there is an urgent need to have real, honest, and genuine conversations around investment matters. It's the right time for individuals and organizations to assess where they are and establish what it takes to create investments that support their short-term and long-term financial goals.

In our optimism, we must be honest in our quest for financial freedom. The following discussion entails some of the strategies you might need to invest in the new normal.

We must combine optimism with brutal honesty and willingness to take action.

Strategies

1. Start with 'YOU.'

You will have the money success that matches your level of personal development. If the covid-19 pandemic brought with it financial distress, then the first place to look and go work on is YOU. Invest in yourself, learn enough to trust yourself, to master essential money management skills and simple investing options.

You don't need to be a rocket scientist to learn and be in a position where you can make sound financial and investment decisions.

You have probably read many books or comments about financial planning and financial freedom, which provoked your mind into having good intentions to trim your budget, start a saving plan, cut debt, etc.

Now it's time to move from just having good intentions and depending on luck. Instead, it would be best to have solid-ground commonsense strategies to improve your personal financial life. You need to know the truth, not the hype, about what to do with your money and why.

Before you invest in something, take time to understand it.

Robert Kiyosaki

2. Begin paying yourself first (build a Freedom Fund or a 'Nest Egg')

The most important financial decision of your life is what portion of your paycheck or income you get to keep aside. How much you will pay yourself off the top before you spend any penny on your day to day living expenses,

You can target to set aside money enough to cover equivalent of two (2) years of your living expenses for a start. This expense cover is referred to as "NEST EGG or FREEDOM FUND", to ensure you always have money for yourself in the future and a sense of control over life events.

Whatever percentage (%) you decide, stick to it no matter what, in good and bad times. Probably you think or say that you are spread thin enough, every penny is accounted for, nothing left for setting aside for investment, you aren't alone many people think they can't afford to save. But frankly, you can't afford not to save.

Saving must become a priority, not just a thought. Pay yourself first.

3. Think WEALTH CREATION not amassing most CASH.

With the help of a qualified financial advisor, you can come up with a long-term investment strategy. This is a framework (rules, principles, procedures, etc.) to help you achieve your investment goals, it determines the day to day financial decisions you make and the long-term adjustments you will need to make to your life to create wealth.

The idea is to develop and grow investments, appreciable Assets, or income - producing Assets to a point at which interest/income from such investments will generate enough income to support your lifestyle without necessarily having to work.

In the world of "today/now needs," the principle of balancing the need to meet today's demands with the need to invest in the capabilities that will produce tomorrows' success is unavoidable. Think long-term, go for a strategy that synchronizes the present with the future- A strategy that promotes sustainability and growth.

You may be meeting the current short-term bills, but the real question is whether you are making necessary investments to sustain the success and development in the long term.

Just like health, wealth creation is not easy. It requires discipline, sacrifice, persistence, commitment, and, yes, delayed gratification. If you cannot immunize yourself from temptations of instant gratification, you will be hard-pressed to find success in wealth creation.

Life Cycle of Building Wealth

- **Early-stage** – in this stage, *the most crucial determinant of your financial outcome is your saving rate as a percentage (%) of your income*. Therefore, the strategy in this stage is to aggressively save and invest as much money as early and frequently as you can, then shift to let your accumulated money grow/compound.

- **2nd Half stage** – *the primary determinant is your investment return net of inflation*. The essential skill for success in this stage is Asset Allocation. Where to park your money and how to divide it up among different available asset classes.

It's all about being more efficient and more effective with your portfolio selection to speed up your wealth creation through compounding magic. Compounding increases the value of your money over time, even if you don't increase your investments.

- **Financial freedom stage** – *at this level, time and compound interest do most of the work for you (money working for you literally)*. Financial Independence becomes a reality, and your living expenses are covered by recurring income that comes from your investments.

You have freedom and choice to live as you please-as well and as fully as you can, for as long as you can, freedom to passionately pursue your dreams, freedom from the pressure of money, freedom to take care of your health and relationships/family.

> ”
>
> *Compound interest is the eighth wonder of the world. He who understands it, earns it, He who doesn't, pays it.*
>
> **Albert Einstein**
>
> “

Conclusion

We should approach Investments with the same discipline, patience, and sacrifice needed for business success. It's not worthy to absurdly put your money in every manner of investment. Instead, if you are serious about achieving your financial goals, you've got to be strategic.

Match your investments to your goals, once you know what you are working towards, you will be able to measure progress towards specific life goals.

The best time to begin your journey to financial independence was yesterday, the other best time is NOW. Just for a fact majority of people woke up today wishing they made better financial decisions 3, 5, 10, 15 years ago. Do not be part of the statistics!

ABOUT THE CONTRIBUTOR:

FA Daniel Nzioki is the lead financial advisor at Merit Financial Consultants and a Full Member of ICIFA and ICPAK. He has most recently served at the Audit Risk and Compliance Committee of the Institute.

[1]Francis-Devine B. Coronavirus: Impact on household savings and debt [Internet]. House of Commons Library. 2021 [cited 19 July 2021]. Available from: *https://commonslibrary.parliament.uk/research-briefings/cbp-9060/*

[2]Barua A. A spring in consumers' steps: Americans prepare to get back to their spending ways [Internet]. Deloitte Insights. 2021 [cited 19 July 2021]. Available from: *https://www2.deloitte.com/us/en/insights/economy/us-consumer-spending-after-covid.html*

INVESTING DURING TURBULENT TIMES: WORLD AT A STANDSTILL

FA Moses Ananga

The market day is 19th October 1987. The previous week's market days starting from 14th up to Friday the 16th, the market has been on tell-signs of decline with no recoveries. The major markets being worlds apart, though a village, the sun rises in Hong Kong and bells ring for shares market to start trading.

The opening trading session is marked with free fall in prices which triggers spiral price declines. As the sun rises in Asia, then Europe and eventually United States, the shock-waves from Hong Kong are hitting hard. What many traders had not anticipated was unfolding in a single day. The world has birthed the *"Black Monday"*.

On this day, the US stock market recorded more than 22% decline in the Dow Jones Industrial Average (DJIA) index, the highest decline in market's history. Though the market was to recover in shorter period than it did in 1929, the precursor to the "great depression" and the 2008 financial crisis, Black Monday is recognized for its abruptness and depth of the single day crash.

The Environment

As we look at the current investment environment, alive to the Covid-19 pandemic and accompanying uncertainties, investor must look at the strategies through the prism of past uncertain events such as the market crashes of the 19th and 20th centuries.

Consolidated actions of the market players are cues as to outlook of the market.

Investors and Analysts must answer the following two questions, Which? and When?

The first question is the easiest to arrive at by using what is described as fundamental analysis and/or the technical analysis. The second question of When, is most popular but most difficult to determine.

The first mantra in investment is *"buy low, sell high"*, in other words buy WHEN prices get low and sell WHEN prices get high. Due to the inability to tell when prices are at the lowest or when they have hit the ceiling, investors use certain strategies in order to gain from both swings.

Before I start with counting one, two, three of the strategies, allow me to bring you the bad news – There is no strategy suitable for investing at a particular time. Oops! That is such a sweeping statement, I hear you ask. Definitely, if strategy there was one for each situation, no one would need contingencies and safeguards such as diversifying a portfolio.

Secondly, any strategy adopted must be tied to the investor's objects and characteristics such as risk appetite and time horizon.

Having said that, let us look at the current environment that we find ourselves as investors in. The world has been thrown into imbalance by the advent of corona virus. The Covid-19 pandemic presents a turbulent state exacerbated by information deficiency. For an investor to commit to a certain asset, they must consider a forecast of future movements of its value viz-a-viz investor's investment horizon. The information deficiency as to how long the pandemic will persist and how long it will take for economic fortunes to turn up, makes this decision making challenging.

In the absence of sufficient information to aid in making investment decisions, investors are left to rely on cues which most of times may be subjective. Some of these cues include Government pronouncements and actions, corporate actions such as dividend policy as demonstrated by some Nairobi Securities Exchange (NSE) listed companies that suspended cash dividends at the onset of Covid-19 in 2020.

The consolidated actions of the market players are thus strong cues as to anticipated outlook of the market.

For lovers of aviation, the mention of turbulence brings into mind the fear and uncertainty that pilots face when they encounter turbulences. The worst of the turbulences, is what is known as the clear air turbulence. This kind of turbulence occurs on clear skies with not clouds thus making it difficult for pilots and flight planners to detect.

Owing to its suddenness and unpredictability pilots may be caught unawares. The nature of the Corona Virus pandemic in its abruptness can be compared to the clear air turbulence. It is this fact that has brought the whole world to a standstill resulting into closure of industries, cessation of movement and total disruption of economies.

The impact of the Covid-19 pandemic cannot be overemphasized.

How long this phenomenon and its effects will last may not be easy to predict. As we operate in these uncertain times, it is also not easy to prescribe a single strategy that works at all times and on all investors. Needless to say, no strategy is applicable across the board. As such, we look at strategies to take into account depending on the stage of investment, risk predisposition, and the investment horizon of the investor.

Risk Averse Potential Investors with Short-term Horizon

For these kinds of investors, risk form a great part of their investment decision and thus may be more comfortable with short-term investments that promise returns with a higher certainty than long-term options. To these investors, fixed income assets and cash may be best bet.

Focus on Liquid Assets with Fixed Income

The uncertainty of returns as well as risk of erosion of principal associated with most long-term investments such as equities and illiquidity of real assets, makes fixed income a safe ground for fearful investors.

Fixed income assets have the advantage of preserving the asset's value besides guaranteeing an almost bankable interest on principal invested. Some of the instruments to consider during turbulent times include Government bills and bonds, bank certificates, as well as corporate debt from credit worth entities.

Since the tenet of returns is relative to risk, these assets however have a lower return than other classes that have uncertain return.

Despite the near guaranteed return, debt instruments present a higher risk of default on both interest and principal during a turbulent season than in a normal time. Due to this fact, investors must heighten their analysis of entities they wish to lend to, a trick task to undertake.

For instance, in 2020, the entity considered almost risk-free, CBK, announced conversion of its 364-day T-Bills into short-term notes.

Keep your Cash

During turbulence times, cash becomes the king, the most valuable commodity as various parties search for it to meet their obligations. Have ready cash may thus come hardy as many assets come up for sale at discounted prices including foreclosures.

The connotation of keeping your cash should not be construed to mean holding such cash under one's mattress or wallet. As investors, we should always keep in mind the value of cash held as cash is always under erosion in nominal sense.

As such, cash can be held in near-cash form even if in a bank account that earns minimal interest.

We look at strategies to take into account depending on the stage of the investment

During This Time, Cash is King

Investors can take advantage of the dip to buy under-valued assets.

Risk Tolerant Investors Already Committed

Due to its unpredictability, investors often find themselves in the middle of the turbulence. At times, having over committed their resource in assets already caught in the melee. Depending on the level of dip in prices and the magnitude of commitment, investors can employ varied strategies to manage their portfolio.

Other factors to consider may include the assets where they have invested in, as well as how long the turbulence is estimated to last.

Buying the Dip

In most situations, all information whether positive or negative, causes market over-reactions before a correction as investors come into consensus as to the "true" value of an asset given the new information. This phenomenon has been evident following corporate actions announcement such as price warnings, negative publicity, and other performance impacting information releases.

As companies come into reality with the situation, and investors appropriate the impact, the correction from the dip or hike happens. However, for some companies, the decline in price may persist causing a stampede as investors seek to exit before prices bottom.

Their actions may trigger a spiraling effect, with prices going below fundamental value. Thus, investors should be cautious to avoid the risk of catching a falling knife, in cases where the fall is anchored on other factors besides the external factors.

During turbulent times, value-investors can take advantage of the dip to buy under-valued assets at highly discounted prices. For investors who were holding these assets before the dip, the situation offers an opportunity to lower their average cost, and in turn lowering their exit price were the prices to appreciate.

For instance, if one had bought Equity Bank shares before the Corona pandemic at Kes. 50 per share and later bought the share at the dip of Kes. 32, the effective average cost of the holding would be lower than Kes. 50 giving the investor a lower escape price once price pick up.

In conclusion, *"be fearful when others are greedy and greedy when others are fearful"* - Buffet. Investors must be extra vigilant when making investment decisions during uncertain times to avoid herd -mentality and make good decisions.

Cut your Losses

Turbulences hit different industries and entities at different

magnitudes. In cases where an investor has holdings in companies that seem irredeemably impacted, sometimes the only wise option is to exit and invest elsewhere.

For example, the Corona Pandemic has had devastating impact on the aviation industry, a move that may take quite a while to come out of woods. For investors in a company such as Kenya Airways, a company with weak fundamentals even before the pandemic, it may take more than a decade for investors to realize any meaningful asset gains.

In such a situation, it would be prudent to realize loss and recoup the much that is possible rather than holding onto as asset that may take long to recover.

The Baseline

As a prudent analyst, irrespective of the type of investor or state of investment, contingency measures must always be placed at the forefront. The best of this measure is diversification of investment.

Diversification is the confession of the inadequacy of information that abound in the investment environment, more so during turbulent times. As a minimum, diversification strategy must be the bedrock upon which other strategies are laid. To cover the risk of making a wrong bet on a single asset or sector, diversification helps in spreading the risk.

The level of diversification however should also be tailored to the characteristics of the investor. For a risk tolerant investor, diversification may be concentrated (intra-asset-class) within an asset class, while inter-asset-classes approach may be preferred for a risk averse investor.

About the Contributor

FA Moses Ananga is a Full member of the Institute of Certified Investment and Financial Analysts (ICIFA)

INVESTMENT STRATEGIES IN THE NEW NORMAL

FA Purity Mugambi

Introduction

Investment is a phenomenon that entails acquiring assets and items intending to generate income or appreciation. The concept of appreciation in investment refers to an increase in the value of an asset over time. Individuals and corporations purchase assets or items with the intent of deferred consumption for future wealth creation. Investors make various investments including;

- Bonds
- Stocks
- Mutual Funds
- Exchange-Traded Fund (EFTs)
- Bank Products
- Options
- Annuities
- Retirement
- Index Funds
- Real Estate Properties
- Saving Education.

There are myriads of investment options thus necessitating the investors to choose the most optimal strategy to maximize their gains. An investment strategy involves a plan developed, designed, and implemented to help investors achieve their financial and investment goals. The strategy that the investors choose is mainly motivated by their expected return, risk appetite, corpus amount, long-term and short-term holdings, age, industry among others.

Investment strategies

Conventionally, various investment strategies have been utilized supported by the popular macroeconomic theories; the accelerator theory of investment, the internal funds' theory of investment, and the neoclassical theory of investment.

Some of the commonly utilized investment strategies include; value investment strategy which is a type of strategy that entails acquiring shares that are undervalued and subsequently selling them when the prices go up. The second type of investment strategy includes the income investment strategy which comprises buying securities that payout returns on a steady schedule.

The most regularly employed form of fixed income securities include; bonds, dividend-paying stocks, exchange-traded funds (ETF), mutual funds, and real estate investment trusts (REITs). The growth investment strategy is the third most commonly utilized strategy which focuses on capital appreciation.

This strategy is relatively a riskier strategy that involves investing in smaller companies that have a high potential for growth, blue chips, and emerging markets. In this strategy, the investor looks for startup companies that exhibit signs of higher profitability in the future and buy their shares.

Lastly, a small-cap investment strategy is explored by investors to expand their portfolios in more risky areas. The strategy involves purchasing shares of companies with smaller market capitalization. This strategy is more applicable to seasoned investors since their shares are very volatile and difficult to trade in the market.

Investment strategies in the new normal

Currently, the world is being faced with a pandemic and investors have to adopt new and applicable investment strategies. Since the wake of Coronavirus Disease 2019 (COVID-19) which was declared a global pandemic by the World Health Organization on 11th March 2020, the conventional investment strategies have been challenged.

The pandemic has caused a sharp decline in economic growth globally and this has heightened market risk aversion in ways never seen since the 2007-08 global financial crisis. As a result, businesses have become highly indebted, and are now vulnerable to deteriorating economic and market conditions.

The investors have been forced to adopt improvised strategies in the new normal to ensure they venture into profitable investments. These strategies aim at understanding current market frugality, paths of market contagion, and policy implementation to handle the new unpredictable environment.

"The strategy involves purchasing shares of companies with smaller market capitalization."

Presently, to tackle the new normal, investors seem to have a preference for less risky investments resulting in an increase in portfolios in high yield savings accounts, certificates of deposit, government bonds, short-term corporate bonds, and dividend stock funds among other less risky investments.

Also, to handle the contingent situation, investors have adopted the strategy of negotiating with the regulators to provide further monetary policy accommodation to provide ample liquidity to ensure a well-functioning market.

Recommendation

Since the outbreak of the Covid-19 pandemic, the global capital market has declined significantly; S&P 500 fell by 30%, the fastest declining level ever experienced in March 2020. The global decline of the capital market has caused panic in the market and investors ought to adopt current investment strategies that resonate with the changing times.

Some of the recommended new strategies to adopt include; buying and holding shares, not disposing of their investment at a loss, investing in the stock market especially now amidst pandemic since the stock prices are low, investing in tech moments, and seeking regulators intervention for tax evasion to sustain businesses. Investors should also go for the social investment strategy which entails investing in companies that are environmentally and socially friendly.

Investors seem to have a preference to less risky investment

About the Contributor

FA Purity Mugambi is a Full member of the Institute of Certified Investment and Financial Analysts (ICIFA) and serves in the Education & Research Committee.

DEMYSTIFYING DECENTRALIZED FINANCE

By FA Wachira Ngoima, CISA

The period 2007-2009 was a watershed period for economics and finance as the United States of America and indeed the world experienced the worst economic crisis since the Great Depression. The crisis had its origins in the subprime mortgage market in the United States leading to a banking crisis which morphed into an economic crisis.

In response, the Federal Reserve under then chairman Ben Bernanke in what he referred to as *blue sky thinking:* a free-flowing problem - solving approach that considered the possibility of going beyond the conventional monetary policy enacted a raft of measures to stem the crisis. These measures included emergency liquidity lending and recapitalization of systemically important financial institutions using taxpayers' funds which resulted in widespread public discontent.

It is against this backdrop of public discontent that an anonymous individual under the pseudonym Satoshi Nakomoto published a white paper *"Bitcoin: A peer to peer electronic cash system"*.

The first proof of concept of the open-source cryptocurrency system named bitcoin was made available in

> *Consensus on transaction data without a trusted central authority is blockchain.*

What is Bitcoin's Technology to DeFi?

January 2009. The roots of the idea for bitcoin can be traced back to the cypherpunk movement in the 1990s that combined libertarian ideology and a bias towards privacy enhancing technologies to reimagine ways in which people could interact with each other online anonymously and with little government interference.

The premise of this new cryptocurrency which can be inferred from the original white paper is to obviate the need for a trusted third party in favour of an electronic payment system based on cryptographic proof.

It is also noteworthy that in bitcoin's genesis block in a special kind of transaction which allows for minting of new cryptocurrencies known as a Coinbase transaction the first miner included a text that cited a newspaper article with a date stamp *"The Times 03/Jan/2009 Chancellor on brink of second bailout for bank"* thus providing a justification for the need for a peer-to-peer digital currency free from the risk of debasement by governments.

The technology that facilitates decentralized trust i.e. consensus on transaction data without a trusted central authority is blockchain. The idea behind blockchain predates bitcoin as it is attributed to Haber Stuart (a cryptographer) & W. Scott Stornetta (a scientist) who in 1991 proposed a method for secure timestamping of digital documents.

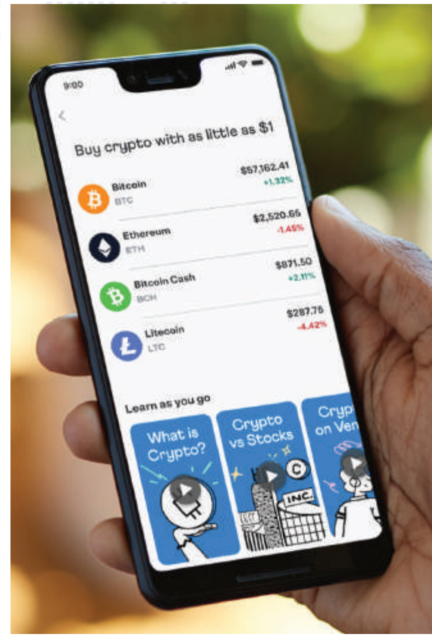
Their solution entails calculating hash values of documents to ensure the integrity of the digital document as a hash or message digest is irrevocably tied to a document as it changes when one bit of a document changes. The hash is then sent to a time stamping service and documents are linked together chronologically hence the data structure referred to as blockchain.

The bitcoin blockchain improves on the idea developed by Stuart and Stornetta as it incorporates some technical improvements i.e. the proof of work consensus mechanism, use of digital signatures for consent in addition to incentive mechanisms i.e. mining rewards and transaction fees to secure the system and solve the double spending problem inherent in a decentralized peer to peer payment system.

Defining Decentralized Finance

The term decentralized finance or DeFi is an umbrella term for financial applications built on blockchain technologies using automated enforceable agreements i.e smart contracts.

DeFi is often confused with the term fintech which refers to technological innovations within the prevailing model of delivery of financial services throughout the financial value chain i.e B2B, B2C or C2C that may leverage technology such as data analytics, cloud or application programming interfaces.



The hash is then sent to a time stamping service and documents are linked together.

Token Characteristics or Tokenomics

Bitcoin cryptocurrency has a hard cap of 21 million bitcoins that will ever be minted.

Following the first successful commercialization of the world's first digital currency i.e bitcoin, there was a wave of innovative start-ups looking to extend blockchain's functionality beyond storage and transfer of digital units of value.

In 2013, a whitepaper authored by a software programmer Mr. Vitalik Buterin introduced the world to the ethereum blockchain a platform whereby anyone can create and run smart contracts and smart contract empowered decentralized applications.

The ethereum blockchain which is often referred to as a second generation blockchain facilitates creation of layer 2 tokens. Layer 2 tokens are created by smart contracts and are distinguishable from native tokens or cryptocurrencies such as bitcoin and ether which are intrinsic to the functioning of the underlying blockchain as mining rewards and transaction fees are paid in these native tokens.

Since layer 2 tokens are created through smart contracts an innumerable number of tokens exists and as such token standards are created that enable seamless interaction across the blockchain. The ethereum blockchain which has the largest number of layer 2 tokens has created standards known as Ethereum Request for Comments (ERC) standards making it easier for wallets, users and smart contracts to interact will all the existing tokens.

Token Characteristics

Tokenomics is an amalgamation of the words token and economics and the term refers to understanding the demand and supply characteristics of tokens whether native or layer 2 tokens. Parameters that are used to define token characteristics are:

- ***The number of tokens to be generated and whether there is a hard cap.*** Tokens are created or minted as stipulated algorithmically in the blockchain protocol as reward for work done (native tokens) or by deploying a smart contract (layer 2 tokens). An example is the bitcoin cryptocurrency which has a hard cap of 21 million bitcoins that will ever be minted.

- ***How tokens are issued. Tokens once minted can be issued to wallets, smart contracts or addresses.*** Tokens are issued in a security token offering (STO), initial coin offering (ICO) or an airdrop. An STO refers to issuance of digital security and is analogous to an initial public offering (IPO) in equity capital raising and often has to conform to regulatory requirements.

An ICO or a token generation event (TGE) refers to the initial sale of a non security consumer utility token which offers a right to use a product or service whereas airdrops are free tokens issued to specific wallets or addresses usually as a marketing gimmick.

• ***Whether a token is fungible or not fungible.*** Fungibility is a concept commonly used in finance in which a unit of a tangible good is completely interchangeable with any other unit of the same good e.g. a 100 shilling note is completely interchangeable with another 100 shilling note as they have the same value and utility. Non-fungible tokens (NFTs) represent a specific off the blockchain asset like a piece of art or real estate and do not have the same utility and value as another NFT. NFTs' value proposition in the cryptoeconomy is the uniqueness of the tangible or intangible asset they represent and as such are often very valuable.

• ***Whether the token can be fractionalized and to how many decimal points.*** An example of this is bitcoin which can be fractionalized to 8 decimal points as the smallest unit of a bitcoin is a satoshi which is 0.00000001 of a bitcoin.

• ***Trading restrictions on the token.***

• ***Governance structure.*** Code upgrades and security improvements in native tokens like bitcoin and ethereum are conducted via improvement proposals thus are described as off the blockchain governance structures. In most layer 2 tokens, governance proposals are often coded into smart contracts and one must own a governance token in order to vote for changes in a particular platform.

• ***Whether additional tokens can be minted in the future.*** There are ERC-20 standard layer 2 tokens on the ethereum blockchain that are known as mintable tokens. Mintable tokens have an added feature that can create new tokens at any time from a special address with a minter role.

The DeFi Ecosystem

The DeFi ecosystem replicates the current financial ecosystem but with a fundamental difference in that the former leverages on the core features of blockchain technology i.e immutability, transparency and autonomy whereas the latter has siloed and proprietary systems and processes. Most DeFi platforms are non-custodial which means that consumers retain control of their cryptoassets and a common characteristic they often share is that tokens are

aggregated together to form liquidity pools to facilitate trading and to provide liquidity. Examples of the most popular DeFi projects across the DeFi ecosystem includes:

• ***Lending and borrowing:*** Aave is one of the most popular liquidity market protocol on the ethereum blockchain and is a system of smart contracts that algorithmically allocates loans from a pool of deposits. The interest charged is based on a utilization rate and the rate is higher if most of the deposits are lent out to entice depositors and vice versa to entice borrowing.

• ***Decentralized exchanges (DEXs):*** Uniswap is a set of smart contracts and is an example of a liquidity pool based decentralized exchange which algorithmically matches bids and offers without a central intermediary. Decentralized exchanges only facilitate token to token transactions.

• ***Derivatives:*** Hegic is a protocol on the Ethereum blockchain for creating, maintaining and settling of hedge contracts. Hedge contracts are analogous to options in derivative trading for example a hedge contract buyer/holder may desire to seek protection against price risk of holding ether for a specific period by buying a put hedge contract on Hegic. The put hedge contract provides the holder the right to swap at any time to expiration for example an ether token to a stablecoin DAI analogous to an American put option in derivative trading. Stablecoins are tokens whose price is fixed to a fiat currency and in the case of DAI token its price is fixed to the US Dollar.

• **Insurance:** A popular platform in the insurance DeFi space is Nexus Mutual which is a risk sharing pool in which individual can purchase insurance protection against smart contract failure and other risks.

There exists an innumerable number of DeFi use cases such as margin trading, data analytics, identity management, investments and payments.

> *DeFi use cases: margin trading, data analytics, identity management, investments and payments.*

Conclusion

DeFi is still a very nascent industry with novel and experimental products and with potentially high risk and high rewards. The evolution of the DeFi industry closely mirrors the growth of internet-based startups in the 1990s which fundamentally changed every facet of our lives from the way we shop, interact, communicate and work.

The evolution in blockchain technology with increased security features, higher scalability, interoperability and more efficient consensus mechanisms will greatly improve the user experience and product offering on DeFi.

Improvements in blockchain technology coupled with the advent of the next phase of the internet's evolution i.e Web 3.0 that will facilitate processing of information with near human like intelligence may result in DeFi not only catalyzing change in traditional banking and financial services but perhaps becoming a viable alternative.

About the Contributor

FA Wachira Ngoima is a Full member of the Institute of Certified Investment and Financial Analysts (ICIFA)

FREEDOM SIDE STORY

Contibutor: FA Margaret Kibera

The beginning of lockdown last year March 2020, was a kind of liberation to exercise some freedom limited by time. There was free and flexible time to do the things that I had longed to do, watch a good movie, read a good book, sleep much more and the thought to indulge without much care and work flexible hours at home without so much pressure.

My siblings were laudable about not taking their children to attend all the birthday parties of their children's classmates. My friend Catherine was free from going to the salon every week. And my friends from western Kenya had a praise-worthy time and experienced the freedom of not contributing humongous amounts of money for funeral arrangements. All these were visible freedom because they were executed without being complied with or impeded.

The capability of freedom in general because we think, decide, move and go wherever we want. Free persons can come and go, live wherever they choose, have their own opinions, travel, meet people, live as they prefer and their freedom is limited in so far as they encroach on their neighbour's freedom.

But the more important freedom, (the one I will talk about here) which many people don't know, and don't know if they exercise it, have it, or are impeded to exercise it, is the invisible freedom. The part that we do not see, also called interior freedom, is the freedom of conscience. Ignorance silences the voice of conscience and weakness darkens conscience. Those who are internally free can direct themselves by the light of conscience, unimpeded by interior obstacles of the conscience, which are weakness and ignorance.

Someone who does not know what ought to be done is free to make mistakes but lacks the freedom to be right. While the freedom to be right is taken from him or her by disordered feelings or the pressure of other people's opinions.

Weakness is bothersome, even humiliating. It has no cure except overcoming it each time it comes up. Since every free action of a person leaves a trace. Weakness increases whenever we yield and decreases whenever we conquer.

A history of repeated failures can lead to the loss of freedom. It is evidenced for example in alcohol addiction and internet addiction for example. It is mind-numbing from within like some sort of worm undermining interior freedom. It takes away the strength to do as we ought and feel like.

If allowed to grow, it then destroys a person in the end. The causes of what makes us do what we didn't intend lies within us, with slight variations in all of us.

Three sources of weakness make us do what we did not want to do, when we let ourselves be carried away by goods to which we're attracted in a disorderly fashion, in the wrong way, the wrong time, to the wrong extent. Attraction to goods is proper and desirable in that it helps us seek goods that improve us. But often goods attract us more than is proper, misleading us regarding what they offer, and giving rise to excessive expectations.

We become fixed on them, even obsessive. We also are inclined passionately disproportionately towards primary goods like food, drink, sex, comfort, and health with irresistible attraction. The disorder also applies to our work, money, social status, or sports.

Their attraction makes them command our feelings, so that we love them passionately and are unable to judge them objectively, while they distort conscience and cause us to be easily carried away. And this affects our whole being in all we undertake. This also means that whenever we yield to disorder, our pre-existing weakness is reinforced.

Our love grows more disordered, we become more accustomed to yielding, and our strength diminishes. Even as the desire for money, drugs sex, food comfort etc. increases, our satisfaction in having them decreases, while rash decisions become more likely.

Another source of interior weakness arises from social pressure or peer pressure. It is called human respect and fear of ridicule. Unlike fear or respect for law and authority. This is a response to unwritten laws and unrecognized

The capability of freedom in general because we think, decide, move and go wherever we want.

> *A person who always follows his or her conscience is said to be upright.*

authority that often dominate us without our realizing it. The pressure can be seen in workplaces, social groups, and families.

Everyone is affected in various ways, we think alike, we dress alike, share the same ideals and fears, believe that what everybody says is good, and what everybody says is bad because everybody does it every body thinks the same way.

Such coercion from this source causes us to laugh at jokes that offend our beliefs and to be ashamed of our principles, our religion, our race, tribe, origin, our profession, our family, and friends. What is at play here is fear of not fitting in, being pointed at and singled out, becoming a butt of jokes or the object of contempt, being left alone and isolated.

Laziness is another source of internal weakness. The reluctance to make the effort to comply with obligations. What is experienced is the so many excuses, delays, concessions, and work done poorly.

Laziness has degrees- in that some people are lazier than others and achievements are always closely tied to a person's ability laziness. Often this defect is not taken seriously as it should be because it appears inoffensive because not doing something good isn't as serious as doing something bad.

Laziness is the cause of endless injustices. People in authority do not intervene to prevent evils or provide required service. Teachers do not teach what they should. Analysts are anchored and inclined on what is easy in their minds at a particular moment. Bureaucratic processes drag on forever, laws cease to operate, productivity declines. Ambition and self-interest, though by no means necessarily admirable, do tend to influence laziness.

Classic economic liberalism holds that the promise of personal benefit is the only cure for this human tendency, and the evidence is that a good salary, for instance, maybe more of an incentive to give good service than a bad one. If used intelligently, the principle of self-interest can overcome laziness and lead to better service.

Laziness is particularly strong in bureaucratic settings where people get paid whether they do their jobs or not. But those who have to please clients or customers have an incentive for work.

About the Author

FA Margaret is a full member of the Institute of Certified Investment and Financial Analysts (ICIFA) and serves as a Council member and other committees of the Council.

■ Quoted and borrowed heavily from the writings of Rev. Juan Lius Lorda in his book titled 'Beyond Good Intentions'.

QUARTER ROUND UP

ICIFA 2nd International Conference Chief Guest, CS Betty Maina, Key Note Address

Nairobi 27th April 2021, Investment and Financial professionals have been urged to adopt the digital revolution to maximize investor returns during and post the Covid-19 pandemic.

Speaking during the opening of the Institute of Certified Investment and Financial Analysts (ICIFA) 2nd international investment conference on the future of investing held on 22-23 April 2021, Cabinet Secretary in the Ministry of Industrialisation, Trade and Enterprise Development Hon. Betty Maina said that financial and operational exigencies occasioned by the COVID-19 Pandemic should be a wakeup call for financial analysts and investment professionals to re-align their business models in line with the digital revolution.

On the global scale, the CS noted that following the financial and operational exigencies occasioned by the COVID-19 Pandemic, investment & financial institutions have been re-aligning business models accordingly while accelerating the pace of technological change to meet the emerging operational demands.

"The advent of the digital revolution means that the new generation of investors is more informed and more discerning than their parents, or the older generation of investors. In the next few years, we'll see more and more investment strategies for those who want to invest, but who do not have a lot of extra money available", she added.

As the global economy shifts through the rapid changes, she added, the finance industry will be required to be at the forefront of innovation through technology. The CS cited the runaway success of Financial Technology (FinTech) innovations in Kenya such as M-PESA as an example of how the financial sector has revolutionized ways of doing business.

"Due to the greater expansion of the FinTech space in Kenya, we have seen the spread and the increased use of digital assets and currencies (such as cryptocurrency) as

QUARTER ROUND UP

alternative mediums of exchange" she noted.

She said that government operations have gained tremendously from FinTech innovations leading to increased use of FinTech in the delivery of Government Services and the various government outreach initiatives.

"All these developments speak to an enabling policy environment for FinTech innovation and a society that is generally receptive to technological innovations and advancements" she added.

The CS noted that the government is keen to continue creating an enabling investment environment for both public and private sector investors, through appropriate policy measures and targeted transformative actions aimed at increasing and diversifying investments.

"To maximise on this progress, the Government, will continue to address any emerging issues in our legislative and regulatory frameworks, to further promote investments in key high potential areas" she told conference delegates.

The two-day conference addressed issues in the financial and investment industry ranging from the impact of COVID-19 on investment outlooks; New technologies such as Blockchain and their potential to disrupt financial and capital markets; Regulatory Policy and Strategy; FinTech; Artificial Intelligence and Machine Learning; Adoption of Environmental Social and Governance approaches in investment among others.

Other speakers during the conference included the Keynote speaker Dr. Mukhisa Kituyi, the immediate former Secretary General UNCTAD, ICIFA Chairman FFA Dr. Jonah Ayaibei, ICIFA Vice Chairman FA Einstein Kihanda and ICIFA Chief Executive Officer FA Diana Muriuki-Maina

QUARTER ROUND UP

FA Einstein Kihanda elected ICIFA Chairperson at the ICIFA 6th AGM held on 25th June 2021.

Other Council Members elected during the 6th AGM are:
FA Catherine Karita - Director, Dimension Group and FA Patricia Kiwanuka - Founder & MD, Revenu Stream

LIVE WEBINAR

May 20th 2021: Decoding Derivatives

LIVE WEBINAR

15th June 2021: Overview of the private equity investment process

OUR PARTNERS

ICIFA

INSTITUTE OF CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS

CONTACT US

Institute of Certified Investment and Financial Analysts

Kasneb Tower II, 5th Floor

Hospital Road Upper Hill Nairobi, Kenya

P.O Box 48250-00100

+254 726 498698 | +254 748 174914 | +254 786 994091

info@icifa.co.ke | membershipservices@icifa.co.ke

www.icifa.co.ke

CONNECT WITH US ON SOCIAL MEDIA

Institute of Certified Investment and Financial Analysts

Institute of Certified Investment and Financial Analysts

Institute of Certified Investment and Financial Analysts

@icifakenya

@icifa_ke