Title: EXAMINING THE EFFECT OF PRODUCT INNOVATION ON FINANCIAL RISK MANAGEMENT IN SACCOS: EVIDENCE FROM KENYA

Title: Applying the Black Litterman Model to the NSE

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ABSTRACT

This study applies the Black-Litterman model to portfolio allocation on the Nairobi Securities Exchange and questions its economic importance. It begins by explaining how the model works the proceeds to implement it. This is done by creating portfolios generated using analyst view from two Research Houses in the Kenyan market, namely Standard Investment Bank (SIB) and African Alliance Investment Bank (AA). Using past return data on the eight stocks selected, the views are translated into expected returns which are then optimized into weights to create the two portfolios. The two portfolios are then tracked over a period of four months against the created market portfolio. The SIB portfolio performs best earning a daily average log return of 053%, followed by the market at -0.01% and the AA portfolio at -0.12%. We fail to reject the null that the returns between SIB and the market, and the market and AA are the same. The null that the returns between SIB and AA are similar is, however, rejected. We find that an economic gain is derived from using the Black-Litterman model where the views are correctly specified.