

**BETA FORECASTS OF THE SECOND BOARD SECURITIES OF  
THE KUALA LUMPUR STOCK EXCHANGE**

BY

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## **ABSTRACT**

The single most important concern confounding the investment community is the element of risk. Hence, the concept of risk has so permeated the world of investment that its inclusion in investment analysis is a widely accepted practice. However, still of controversy is the question of what constitute risk and how it should be measured. This study examines the statistical properties of one measure of risk, namely the beta coefficient, as given in the Capital Asset Pricing Model which links the relevant risk and return. Beta coefficient has been widely accepted by academic circles, and over the years it has been increasingly recognised by the investment community.

This study investigates the predictability of three different methods in forecasting future beta coefficients of 31 stocks listed on the Second Board of the Kuala Lumpur Stock Exchange. These methods are : 1) the Ordinary Least Squares (OLS) method, 2) Blume's method, and 3) Vasicek's method. The empirical analysis involves both simple as well as multiple regressions using weekly returns on the securities and the market index. The Mean Square Error is used as a measure of forecast accuracy for each method.

The results showed that Vasicek's method is the most superior method of predicting future beta coefficients of the Second Board stocks. This is followed by the Blume's method while the OLS method proved to be the most inferior method.

## **CONTENTS**

	<b>Page</b>
Acknowledgement	i
Abstract	ii
List of tables	iv
List of Appendices	iv
 <b>Chapter 1 : Introduction</b>	
1.1 Capital Asset Pricing Model (CAPM)	1
1.2 Beta	5
1.2.1 Estimating Beta	6
1.2.2 Uses of Beta	8
1.3 Literature Review	10
1.4 Objective of the Study	13
 <b>Chapter 2 : The Capital Market</b>	
2.1 The Role Of The Capital Market	14
2.2 Funds Raised In The Capital Market	17
2.3 Development Of The Malaysian Equity Market	21
2.4 Size Of Market	26
2.5 Development Of The Second Board	26
2.6 Listing Requirement Of KLSE	28
 <b>Chapter 3 : Data And Methodology</b>	
3.1 Sources Of Data	30
3.2 Computation Of Beta	31
3.2.1 Ordinary Least Squares (OLS) Method	31
3.2.2 Blume's Method	33
3.2.3 Vasicek's Method	34
3.3 Mean Square Error	35
 <b>Chapter 4 : Results</b>	
4.1 Significance Of Beta Forecast	37
4.2 Distribution Of Beta Coefficients	38
4.3 Prediction Of Beta Coefficients For Period 2	40
4.4 Prediction Of Beta Coefficients For Period 3	40
4.5 Prediction Of Beta Coefficients For Period 4	42
4.6 Comparison With Other Studies	43
 <b>Conclusion</b>	
5.1 Concluding Remarks	46
5.2 Limitations Of Study	47
 References	49
Appendices	51

## **List Of Tables**

Table 2.1 : Funds Raised In The Malaysian Capital Market, (1985 - 1994).

Table 2.2 : Statistics Of The Second Board Of The KLSE, (1989 - 1995).

Table 4.1 : Summary Statistics Of Betas Of Second Board Stocks, (1992 - 1995).

Table 4.2 : Forecast Errors Of Beta Coefficients.

## **List Of Appendices**

Appendix A : Betas Of Securities

Appendix B : Capital Changes And Dividends Of The 31 Selected Stocks

Appendix C : Companies Selected For The Study And Their Market Capitalisation