

CHAPTER 5 : CONCLUSION

5.1 Concluding Remarks

This study examines the beta forecast of 31 stocks listed on the Second Board of KLSE using three methods - the OLS method, Blume's method and Vasicek's method. Based on the overall average value of the MSE throughout the four periods (1992 to 1995), Vasicek's estimated beta coefficients have proven to be the most reliable predictor. Blume's estimated beta coefficients are the second best predictor while the computed OLS beta coefficients are the most inferior predictor.

Compared to the computed beta coefficients of period 1, the Vasicek's estimated beta coefficients are better predictors of the beta coefficients of period 2.

Blume's estimated beta coefficients are the best predictors of the beta coefficients of period 3. This is followed closely behind by Vasicek's estimated beta coefficients. The computed beta coefficients of period 2 are the worst predictors in this period.

In the prediction of the beta coefficients of period 4, Vasicek's estimated beta coefficients are the best predictors, followed by Blume's estimated beta coefficients, and again in this period, the computed beta coefficients (period 3) are the worst predictors.

However, the MSEs obtained are large in comparison with the findings of the studies conducted by Kok (1994), Wong (1994), Klemkosky and Martin (1975), and Lam, Mok and Cheung (1990). This could be due to the volatility of the Second Board companies. This is hardly surprising given the fact that these companies have a very strong need for growth and expansion. Furthermore, the limited number of outstanding shares issued by the Second Board companies can also be a contributing factor as these stocks can be "cornered" or manipulated rather easily by a few powerful market players. As such, volatility is an inherent nature of these stocks, which is similar to the characteristic of most stocks listed on a developing market.

However, large MSEs could also indicate that the three methods may not be the appropriate predictors of future betas of the Second Board stocks. Therefore, it is recommended that future research can be conducted by extending this study using other methods such as the MLPFS (Merill Lynch, Pierce, Fenner and Smith Inc.) method and the DFR (Dimson-Fowler-Rorke) method.

5.2 Limitations Of Study

This study has a few limitations. Firstly, the proxies adopted for this study, namely the KLSE Composite Index and the OLS's historical betas may not reflect the "true" market portfolio and the "true" betas respectively.

Secondly, the results of this study are affected by the thinness of trading. Thinness of trading is a prevalent phenomenon which hampers most studies on developing markets such as the Second Board.

Thirdly, only three methods have been used in this study. The results yielded quite large MSEs. Hence, the finding would have been more complete and conclusive if other methods of study such as the MLPFS and DFR methods were included in the study.