## Chapter 5    Conclusions and Recommendations

This chapter presents an overview of the study, implication on the Efficient Market Hypothesis (EMH), limitation of study and recommendations for future research.

## 5.0    Overview of the Study

This study has examined the significant association between volatility of trading volume and the stock price on Technology Sector of Kuala Lumpur Stock Exchange (Main Board) for the period of June 2000 till June 2002. Furthermore, this study also attempts to study the effect of market efficiency on the Technology Sector of Kuala Lumpur Stock Exchange(Main Board) after government recognized the need to transform the economy to a knowledge-based economy to take advantage of the opportunities created by the new information and communication technology.

The bivariate correlation is used to define the extend of association between stock price and volatility of trading volume.  Subsequently, t-test is used to test for the significant association between the two variables.  Evidence was found supporting the position of the efficient market hypothesis, implying that the market is efficient in the weak form. Therefore, the value of past information including price and volume data is already fully reflected in the present price. The findings of this study is consistent with research results of prior local researchers Annuar, Ariff and Shamser (1991).

## 5.1   Implication on the Efficient Market Hypothesis

The stock exchange act as a medium where a scarce economic resource namely investment capital is allocated optimally. The creation of wealth depends on the optimal allocation of investment capital. In an efficient market, prices provide an accurate signal for resource allocation. Thus, market efficiency benefits all market participants, the lenders the intermediaries who get a normal return, and the borrowers. The lenders can use the signals to construct efficient portfolios and the borrowers can devise strategize to efficiently allocate the available capital to maximize their wealth. If EMH does not hold, then profitable investment rules may devised to exploit above risk adjusted returns through an arbitrage process. Such condition may detrimental to the future development of the market while it will also have the effect of moving the market toward efficiency.

This study attempts to provide some evidence on the implications for local market efficiency based on the stock prices to volatility of trading volume relationship. It also attempts to investigate this phenomenon solely on the Technology Sector of KLSE Main Board stocks. The evidence presented suggests that the share market is weak form efficient and not economically viable whatever the strategies in order to reap abnormal profit. Thus, these findings are not consistent with the basic tenet of technical analysis, which claims that past price and volume data can be used to devise profitable investment strategies. The term technical analysis refers to the methodology of forecasting fluctuations in securities prices, so it is essentially to search for pattern in price movements based on past market information such as history of past prices or trading volume.

Since the study reveals that the market is efficient in the weak form, therefore, it is not viable to devise trading strategy to beat the market. Furthermore, even if the market is inefficient in the weak form, the cost in devising a profitable trading

strategy might outweigh the return earned through the pursue of the suggested trading strategy.

## 5.2    Limitations of Study

There are a number of limitations while conducting this study due to various practical difficulties that cannot be completely solved. Firstly, the time span of this study is only two years period (June 2000 till June 2002) with 573 pairs of observations for each stock while AKN having 495 pairs of observations and HeiTech having 407 pairs of observations. Thus, this study is applicable in the short-term association between the changes in stock price and volatility of trading volume on the Technology Sector of KLSE Main Board.

Secondly, due to the time constraint for the research, the study is solely tested on bivariate variables to examine the significance association between the volatility of trading volume with the stock prices, whereas, other factors which will affect the stock price was abandoned in this study.

## 5.3    Recommendations for Future Research

In view of the limitation of this study, it is recommended that research for further study can take longer time frame to enhance the reliability of the findings as well as its generalization of the association between the variables. Moreover, further study could be replicated to the other sectors of KLSE Main Board Stock to find out whether or not there exists any significant association between the two variables.

Due to the weak significance association between the volatility of trading volume with the stock prices, I would recommend that further study could be extended to the multivariate variables test on Technology Sector of KLSE Main Board.