

ACD-8749

INVC M.S.A: 17/2/98 Mr

MONTH-OF-THE-YEAR EFFECT OF THE MAIN BOARD
STOCKS ON THE KUALA LUMPUR STOCK EXCHANGE

BY
ONG GHEE POH
Bachelor of Engineering (Civil)
University of Malaya
Kuala Lumpur
1990

Perpustakaan Universiti Malaya



A507469994

Dimikrofilkan pada 22-7-1998
No Mikrofis 13581
Jumlah Mikrofis 1

Ameaz Puzi B. A. Wahab.

UPR

UNIT REPROGRAFI
PERPUSTAKAAN UTAMA
UNIVERSITI MALAYA

Submitted to the Faculty of
Economics & Administration
University of Malaya
in partial fulfillment of
the requirement for
the Degree of

MASTER OF BUSINESS ADMINISTRATION
March, 1997

ABSTRACT

The Kuala Lumpur Stock Exchange Main Board market efficiency has always been a subject of discussion among the investors. Various related research carried out differed in their findings. Neoh (1990) found that one can earn abnormal profits thru the use of the Moving Average method and went on to question the validity of efficient market in Malaysia. Chia (1984) found that technical analysis cannot be used to obtain abnormal profits as compared to the naive buy-and-hold strategy, and went on to conclude that the Malaysian stock market is efficient. Annuar (1991) concluded that the average market are efficient but there exist pockets of inefficiency. Mansor (1989) found that stocks prices do not move in random therefore rejecting the efficient market hypothesis.

The purpose of this paper is to explore the existence of the month-of-the-year effect among the 32 sampled stocks which are components of the Kuala Lumpur Composite Index. The study will investigate the pattern of seasonality and make inferences on the market efficiency of the main board.

ACKNOWLEDGEMENTS

First and foremost, I wish to thank GOD for HIS devine help in all things; especially in opening up the opportunity to further my studies. My special thanks to Associate Professor Dr. Hamzah (Dean of the Engineering Faculty) for being my referee for this course.

My sincere appreciation and gratitude to my supervisor, Professor Dr. Kok Kim Lian, for his assistance, supervision, his invaluable time and advice without which this study cannot be successfully completed.

My special thanks to my fellow coursemate Mr. Lim Kay Chay for the provision of a couple of related computer software. Thanks to my fellow coursemate Mr. Kng Tuan Kah and Mr. Lim from the computer section for their assistance in obtaining the necessary computer manuals.

Last but not least, to my beloved wife, Jaclyn Yap Chew Kun, and to my adorable daughter, Emily Ong Shen Li, whose encouragement, understanding and unceasing moral support gave me the inspiration to successfully complete this study.

TABLE OF CONTENTS

	Page
1. INTRODUCTION	1 - 4
1.1 Behaviour of stock market prices/returns	
1.2 The Efficient Market Hypothesis	
1.3 Research objectives	
1.4 Organization of the study	
2. LITERATURE REVIEW	5 - 7
3. RESEARCH METHODOLOGY	8 - 16
3.1 Data collection technique	
3.2 Sources of data	
3.3 Model of stock returns	
3.4 Hypothesis	
3.5 Statistical tests	
3.6 Bartlett Box tests	
3.7 T-tests	
3.8 Tukey HSD tests	
3.9 Kruskal-Wallis tests	
3.10 Mann-Whitney U tests	
4. EMPIRICAL RESULTS AND DISCUSSION	17 - 26
4.1 Analysis of data	
4.2 Monthly mean return distribution	
4.3 Results of ANOVA	
4.4 Results of T-tests	
4.5 Results of Bartlett Box tests	
4.6 Results of Mann-Whitney U tests	
4.7 Results of Kruskal-Wallis tests	

5. SUMMARY AND CONCLUSION	27 - 32
5.1 Restatement of study objective	
5.2 The existence of the month-of-the-year effect	
5.3 Conclusion on the pattern of seasonality	
5.4 Explanation of the month-of-the-year effect	
5.5 Implications of study findings	
5.6 Limitations of the study	
5.7 Recommendation for future research	
 BIBLIOGRAPHY	 33 - 34
 TABLES	 35 - 55
 APPENDIX	 56 - 61

LIST OF APPENDICES

Appendix	Page
I Capital Changes for the 32 Selected Securities from 1/1/84 to 31/12/95	56 - 58
II Computation for Capital Changes	59 - 60
III Market Capitalization for the 32 Selected Stocks	61

LIST OF TABLES

Table		Page
1	Summary Statistics of Mean Returns of 32 Main Board Securities by the Month-of-the-Year	35 - 42
2	Summary Statistics of Mean Returns of 6 Regional Bourses by the Month-of-the-Year	43 - 44
3	Summary Statistics of 32 Main Board Securities	45
4	Summary Statistics of 6 Major Stock Indices	45
5	Summary of the Mann-Whitney U test on the 32 Main Board Securities	46 - 51
6	Results of the Mann-Whitney U test for the 6 Major Bourses	52 - 53
7	Summary of the Highest and Lowest Returns for the 32 Main Board Securities	54
8	Summary of the Highest and Lowest Returns for the 6 Major Stock Indices	55