

Chapter 6

Conclusion and Recommendations

6.1 Summary and Conclusion

In conclusion, our findings on the informational efficiency of the Malaysian market are mixed as summarised in Chapter 5. Although macro analysis on both types of bond rating announcements indicates that new information is perceived from the bond rating announcements in the Malaysian capital market, extended analysis indicated the financial market is still somewhat efficient in certain forms.

A surprise result from this study is that bond upgrade rating announcements are also found to provide significant abnormal returns that is informational content is disseminated to the public during such announcements. This has in fact differs from various earlier studies conducted. This may be attributed by possible information leakage prior to the actual announcements or the presence of insider information.

Another issue is on the timeliness of information to be reflected in the stock prices and to a more general scale, stock returns. Although earlier research has pointed that bad news will lead any information announcements, our findings has indicated otherwise in that information is also disseminated during the announcements. This may be due to the largely inconsistent

market whereby the degree of information available to the market differs according to parties/ individuals. Information which would have been available to some is not available to others, and hence there are still some informational content in such announcements.

6.2 Limitations of the Study

As found from the multitude of prior researches conducted and reviewed, most of them which had largely based on either Moody or Standard & Poor and utilises a large sample, some in the thousands. The final uncontaminated sample utilised in this study which fulfils all the stated requirements stands at 69. Further breakdown of the sample especially for the analysis of the second model has resulted in insufficient data for some of the sub-samples. This in turn may affect the generality of our findings towards the market.

Another limitation is imposed by the sample size. Credit rating on corporate bonds whose firm is listed on the Bursa Malaysia or KLSE by RAM comprises around 147 different issuers as compared to the final sample size of 69. Although the Malaysian bond market is one of largest within the Asian region, the uncontaminated sample obtainable for the scope of this study is comparatively small with repetition on certain issuers; hence the research conducted may be susceptible to bias towards industries- or firm-specific characteristics.

Also, the results of this study may still be susceptible to the effects of major events. As pointed out by both Kliger and Sarig (2000) and Doma and Omar (2006), economic events work as a catalyst to rating changes. Findings by Joo and Pruitt (2006) further proved that effects over stock prices due to rating announcements are amplified during an economic event. Movements in stock prices cannot be clearly segregated to show the component effect which is actually impacted by the rating announcement or that by the economic event itself. Although this research has endeavoured to study on uncontaminated sample data as was applied by Hand, Holthausen and Leftwich (1992), the accuracy of this study hinged on how comprehensive that all relevant news released has been captured.

6.3 Suggestions for Future Research

As the main objective of this study revolves around the impact of bond ratings announcements on stock prices, no account was taken on the impact of bond rating announcements on bond spreads. As of now, the number of loan stocks trading in the Bursa Malaysia is relatively limited and the trading of such securities is also comparatively less active as compared to other stocks. Nevertheless, a cross comparison between stock returns and bond yields against bond rating announcements in the Malaysian context can be conducted to provide insights on the efficiency of both Malaysian bond and equity markets when similar information is disseminated within the same period.

The statistical tool utilised in this study i.e. the t-statistical tests is selected due to its relative ease of use. It is worthy of note that researchers has also delved into the more intricate financial models for more revealing findings. Future studies may consider applications of different analytical tools and methodologies.

Also, as this study was conducted based on an event window of 11 days, the findings on the timeline for information to be reflected in the stock price has been inconclusive. Future research may be expanded by dictating a longer event window to study on account for time lag factoring of market response as has been found in studies based in foreign markets.

6.4 Implications

As bond rating announcements are found to a certain degree to bring informational content to the Malaysian financial market, the investing community may find it advantageous in making use of such ratings in their decision making process. This findings may however be influenced by the tendency of rating agencies to lag in information disclosure in their ratings as found by Löffler (2005) coupled with the evolving trends of the financial markets. One of the key roles of a rating agency is in fact to disseminate information on the item being rated in in such a manner so as to bring value to its users. Rating agencies have to conduct periodical reviews of its rating criteria and methodologies in order to keep abreast with the changing market.