THE APPLICABILITY OF THE DIVIDEND-YIELD INVESTMENT STRATEGY AT THE KUALA LUMPUR STOCK EXCHANGE

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ABSTRACT

Many theories, techniques and strategies have been developed over the years on how to outperform the stock market. The objective of this research is to apply the "Dividend-Yield" strategy on the Kuala Lumpur Stock Exchange ("KLSE") to ascertain whether using such a strategy would provide superior investment return. Research findings using this strategy on the New York Stock Exchange ("NYSE") have shown favourable results.

The data used in this research were sourced primarily from the KLSE, covering a period of 10 years from 1988 to 1997. This research is based on the premise that the investment universe comprises the component stocks of the Kuala Lumpur Composite Index ("KLCI"). The analysis began with the ranking of the KLCI stocks in terms of their dividend yields for each year. The second stage involved the selection of the 10 highest dividend yield stocks and invests in them (in equal dollar amount) for the next 1 year. The third stage involved the yearly readjustment of the 10-stock portfolio based on new information concerning the dividend yields.

The investment returns using the Dividend-Yield Strategy over a period of time will be evaluated against the market investment benchmark, which are the investment returns to the KLCI. Finally, we examine the practicality and limitations of such strategy in the Malaysian equity investment environment.

The research reveals that for the period of 1988 – 1997, the KLCI recorded an average annual investment return of 15.90% while the Dividend-Yield Strategy yielded an average annual investment return * of 33.35%. Translated into monetary terms, the research reveals that an initial investment of RM 10,000 would result in an investment value of RM 22,773 under the KLCI while the Dividend-Yield Strategy resulted in RM 90,298. From the risk analysis point of view, the Sharpe Performance Index ** for the KLCI is 0.238 while for the Dividend-Yield Strategy is 0.509.

In conclusion, the Dividend-Yield Strategy does provide superior investment return, even after adjusting for risk, as compared to the strategy of investing in the stocks that comprise the KLCI.

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* The returns on the portfolio are equally weighted among the 10 stocks.

** This measures the return earned for bearing risk per unit of total risk. Radcliffe, Robert C. (1998), *Investment*, USA; Addison Wesley Longman.

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