Chapter 5
CONCLUSION

The main objective of this study is to investigate the relationship between stock returns (both nominal and real) with inflation in Malaysia. The stated relationship is tested by linear regressions and enhanced by the charting method, i.e. technical analysis.

Compared with previous studies, the empirical results in Malaysia show a positive and significant relationship between current nominal stock returns and inflation. The results indicate that stock returns act as a hedge against inflation. Further tests are conducted to check the effects of the leads and lags of inflation. Empirical results show that no significant relationship is found. In particular, the study provides support for Fisher Hypothesis, where a positive relationship is expected and past inflation contains no information regarding future inflation.

The positive and significant relationship between real stock returns and inflation found in this study did not go along with either the Fisher Hypothesis (1930), which claims no significant relationship between real stock returns and inflation, or the Nelson’s analysis (1976) which claims negative evidence. Although the positive and significant current stock returns and inflation relationship is detected, inflation is generally found to be a weak variable overall in influencing the stock returns in Malaysia.
This study further enhances the above relationship by the use of charting method, i.e. technical analysis. By decomposing the nominal stock returns into a real component, allows one to discover the impact of inflation. Based on the Elliott Wave Principle, the influence of inflation is found to be small. In particular, the study can conclude that inflation has a limited impact on stock returns in Malaysia. There are other risk factors rather than inflation alone, which may determine the stock returns.