ACKNOWLEDGEMENTS

First of all, I would like to express my gratitude to my supervisor, Professor Kok Kim Lian for his commitment and invaluable guidance throughout this research.

I am grateful to Dr. Tan Keng Teh, for his encouragement and help during the course of my study.

I would also like to take this opportunity to express my special thanks to all my friends for their help and cooperation in many ways on many occasions.

Last but not least, I would like to give my heartfelt thanks to my beloved family especially my parents for their stout support, understanding and patience.

ABSTRACT

The fundamentalists believe that all securities have an intrinsic value, which can differ from its market price and eventually, the market price of a security will gravitate towards its true value. Graham believed that even though securities market could be overall efficient, any conscientious investor could gain superior returns through pockets of inefficiencies by paying close attention to investment fundamentals and taking advantage of undervaluation and mispricing of individual securities. He also proposed ten selection criteria to identify underpriced securities. The study aims to investigate whether the portfolios formed using Graham's selection criteria could achieve superior performance in the Kuala Lumpur Stock Exchange (KLSE). In addition, strategies different from the one recommended by the Graham-Rea approach are also employed for comparison to determine the best strategy. These strategies are: strategy 1-each security is held for either 2 years or until a 100% price appreciation is achieved, whichever comes first; strategy 2-each security is held for either 2 years or until a 75% price appreciation is achieved, whichever comes first; strategy 3- each security is held for either 2 years or until a 50% price appreciation is achieved, whichever comes first and strategy 4- each security is held for either 2 years or until a 25% price appreciation is achieved, whichever comes first. Strategy 3 is the strategy recommended by the Graham-Rea approach.

The results of the study indicate that investors in the KLSE can obtain superior portfolio performance compared to the market performance using two out of the four strategies employed. The average returns achieved by the portfolios formed using Graham's criteria

for the period of study ranges from about 16% to 43% as opposed to the mean market return of about 23%. However, after adjusting for risk, only about 30% of the excess risk-adjusted returns are significant. Nevertheless, almost all the portfolios maintain positive excess risk-adjusted returns throughout the period under study. Comparison of the different strategies employed indicates that strategy 1 and strategy 2 are better than the one suggested by the Graham-Rea approach.