



**EVIDENCE OF SHORT-RUN
PERSISTENCE
IN UNIT TRUSTS PERFORMANCE
IN MALAYSIA**

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Submitted to the Faculty of Business and Accountancy,
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in partial fulfillment of the requirements for
the Degree of Master of Business Administration

January 2002

ACKNOWLEDGEMENT

We would like to express our gratitude to Professor Dr. Mansor Md. Isa, our supervisor. Despite his busy schedule as the Dean of faculty, he had spared his most valuable time providing assistance, guidance and suggestions to us in carrying out this research project.

We also wish to acknowledge the librarians of the Federation Malaysia of Unit Trust Managers for their kindness and willingness to supply materials and consent to allow us to use the library facilities.

ABSTRACT

The objective of this research is to determine whether there is statistical evidence in performance persistence of Malaysia unit trusts. Tests for performance persistence is also tests for weak form market efficiency of unit trusts in Malaysia. The study is also of practical value since performance persistence indicates that past performance is good prediction of future performance. If there was statistical evidence on performance persistence, then Investors should select the unit trusts to invest based on past performance of the unit trusts.

Both parametric and non-parametric statistical tests were carried out to test for performance persistence. Parametric tests employed the regression methods to find serial correlation of unit trusts returns. Performance persistence can be concluded if the null hypothesis of no serial correlation of unit trust returns can be rejected. Non-parametric test used contingency table analysis where performance persistence was defined as the ability of unit trusts to maintain its ranking of relative performance.

The data set used in this study were Malaysia equity unit trusts that were in existence before year 1995. Net asset values of unit trusts were used to calculate returns and Three-months Treasury Bill was used as surrogate for risk free rates. Kuala Lumpur Composite Index was used as benchmark for calculating the market returns. The statistical tests were carried out for all the unit trusts in the data set and also to government-sponsored and private sector unit trusts separately to see whether there was difference in performance persistence of the two major categories of unit trusts. For regression of residual, different measure of residual (abnormal) returns of the unit trusts were used.

The results confirmed that performance persistence is very much dependent upon how unit trusts performance is measured and the methodology used to test for persistence. Generally, the study finds no performance persistence of units trust using cross sectional regression of residual returns. Instead, there was strong performance reversal for mean-adjusted residuals. From the time series regressions, we can also say that there was generally no performance persistence for the equity unit trusts.

However, the results of non-parametric test using contingency table analysis indicates that there was performance persistence generally for the study period of 1991-2000 except for the period 1995-1998.

There is little difference in the results of persistence tests when government-sponsored unit trusts and private unit trusts were analyzed separately.

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