

**The Performance of Local Majority Equity Companies
(LMECs) and Foreign Majority Equity Companies
(FMECs) in the Kuala Lumpur Stock Exchange :
Before and During the Financial Crisis**

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ABSTRACT

The financial crisis, which began in July 1997 in Malaysia, had affected both Local Majority Equity Companies (LMECs) and Foreign Majority Equity Companies (FMECs). The study attempts to examine and compare the performance of LMECs and FMECs listed on the Kuala Lumpur Stock Exchange (KLSE) by looking at companies' stock return. The study is divided into two sub periods, namely "before the crisis" and "during the crisis". The samples consisted of 21 LMECs and 21 FMECs, which were selected from the companies listed on the KLSE main board and second board. These samples of LMECs and FMECs were matched respectively according to their sector and size of market capitalization. Sectors included were food, beverage and tobacco, consumer products, building materials, plantations, trading and industrial products.

The study reveals that the performances of FMECs were seriously affected "during the crisis" as compared to "before the crisis". In contrast, the result indicates that the LMECs' performances were less affected "before the crisis" as well as "during the crisis". Comparison between these two portfolios revealed that both groups had an average return performance "before the crisis". However, "during the crisis," the results show that FMECs had a larger impact on performance. It shows that the FMECs had larger difference in return performance as compared to LMECs. When the study examined the wealth impact of the crisis on LMECs and FMECs, the result shows that LMECs experienced lesser impact although it also appears that they felt the impact earlier than FMECs. Thus, the LMECs tend to react faster than FMECs to the financial crisis.

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