BEHAVIOUR OF TRADING AND NON-TRADING STOCK RETURNS IN THE MALAYSIAN STOCK MARKET

BY:

TAN LAY KHONG

(EGE 98017)

SUBMITTED TO THE FACULTY OF ECONOMICS AND ADMINISTRATION,

UNIVERSITY MALAYA, KUALA LUMPUR

IN PARTIAL FULFILLMENT OF THE REQUIREMENT

FOR THE DEGREE OF

MASTER OF APPLIED STATISTICS

APRIL 2000

ACKNOWLEDGEMENT

I am fully indebted to my supervisor, Professor Dr. Kok Kim Lian for his guidance, suggestions, support and patience that enables me to complete this research on time.

I would like to thank my classmates Hui Keng, Keat Chye and Nor Haliza for their great help and support. Finally, my deepest appreciation to my beloved wife, Lee Yuen for her cares, understanding and encouragement towards the completion of this research.

ABSTRACT

This study examines the stock returns and volatilities of trading and non-trading day for seven KLSE indices from January 3, 1994 to November 26, 1999. Six return series are computed. They are the overnight, open to close, morning, afternoon, close to close and open to open series. There is consistently positive overnight return throughout Monday to Friday. The weekend effect or Monday effect is significantly positive. The returns of the morning, open to close, close to close series are negative particularly on Monday, Tuesday and Thursday. Except for Monday, other weekdays have positive afternoon return.

Mean and variance return are significantly different between overnight and open to close series as well as between morning and afternoon series. However, they are insignificant between close to close and open to open return.

This study also examines the stock return and volatilities over 3 sub-periods. Sub-period 1 is from January 3, 1994 to December 31, 1996. Sub-period 2 is from January 3, 1997 to August 28, 1998 while sub-period 3 is from September 2, 1998 to November 26, 1999. The overnight return is significantly positive in sub-period 1. It turns negative in sub-period 2 and reverses to positive in sub-period 3. Weekend effect is only significant in sub-period 3. The morning, open to close and close to close returns are significantly negative in sub-period 2. The afternoon return is significantly positive in sub-periods 1 and 3. Equality of mean is rejected between sub-periods 1 and 2, 2 and 3 as well as 1 and 3 respectively. As for volatility, it is insignificantly different between sub-periods 1 and 2, 2 and 3 as well as 1 and 3 respectively.

CONTENTS

Page

LIST OF TABLES