

CHAPTER 1: INTRODUCTION

1.1 The Kuala Lumpur Stock Exchange

The Kuala Lumpur Stock Exchange (KLSE) is a self regulatory organisation which provides securities dealings. It provides a central market place for buyers and sellers to trade in shares, bonds, Malaysian Government securities, corporate debt securities, transferable subscription rights and warrants. In 1989, the KLSE employed semi automated trading system known as System on Computerised Order Routing and Execution (SCORE). The buying and selling orders under this system are entered into computer terminals at the stockbroking companies and routed to the KLSE for the matching of orders. It was converted into a fully automated trading system in October 1992. The system was further enhanced and by early 1995, all stockbroking companies were equipped with the KLSE's latest computerised broker front end system known as the WinSCORE system. It comprises two major computer systems:

- (a) SCORE (System on Computerised Order Routing and Execution) which is the central computer engine responsible for the matching of all orders.
- (b) WinSORE, the broker front end trading system, whereby each dealer operates an integrated terminal providing real time stock prices. This method is responsible for better credit control, order and trade routing as well as confirmation.

Before 22 July 1992, the trading hours in the Kuala Lumpur Stock Exchange were from 10.00 am to 12.30 noon and 2.30 to 4.00 p.m. Since then, it was

extended half an hour for the morning session, from 9.30 am to 12.30 noon and one hour for the afternoon session, from 2.30 to 5.00 pm. In December 1997, the trading hour was again extended for another half an hour for the morning session, from 9.00 am to 12.30 noon whilst the afternoon session remains from 2.30 to 5.00 pm.

1.2 Significance of This Study and Research Objectives

Extensive studies have focused on minute by minute, fifteen minutes, hourly and daily data of the returns and volatility in the emerging and developed stock markets. Previous studies include the study of market volatility of the time of the day effect, the daily effect, weekly effect, monthly effect, the pre and post holiday effect and the size of the firm effect. Some studies have also examined the non-trading day effect such as the overnight non-trading effect, lunch break effect and weekend effect. However, not many studies have been done on the behaviour of the intradaily trading session, which consists of the morning session (morning open to morning close), the afternoon session (afternoon open to afternoon close) and the daily trading session (morning open to afternoon close). Thus, the main purpose of this study is to examine the mean returns and volatility of the non-trading and trading day of the Kuala Lumpur Stock Exchange. Additionally, two sets of interday returns such as the open to open series and the close to close series are also examined. The examination of the trading and non-trading behaviour of the KLSE provides an important research towards the market return

and volatility. This study serves as a useful guide to investors in developing their investment strategy.

Objectives of this study:

- (a) to examine the mean returns and volatility of the close to open, open to close, morning, afternoon, close to close and open to open series across all week days for seven indices of the entire sample period.
- (b) to investigate the existence of weekday, overnight, weekend and daily effects across all week days for seven indices of the entire sample period.
- (c) to test the equality of the mean returns and volatility between close to open (overnight non-trading) and open to close (the daily trading) series, the morning and afternoon series, close to close and open to open series across all week days for seven indices of the entire sample period.
- (d) to compare the differences of the mean return and volatility of the close to open, open to close, morning, afternoon, close to close and open to open returns across different sub periods for seven indices.
- (e) to test if there is any difference in the mean and volatility of the close to open, open to close, morning, afternoon, close to close and open to open return series between the sub-periods.

1.3 Framework of This Study

The organisation of this study is as follows: literature review is provided in Chapter 2, data and methodology in Chapter 3, research results in Chapter 4 and summary and conclusions is presented in Chapter 5.