RELATIONSHIP BETWEEN
RISKS AND RETURN IN THE
KUALA LUMPUR STOCK EXCHANGE

by

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ABSTRACT

Results of empirical tests on the relationship between stock returns and various risk factors of sixty stocks in the Kuala Lumpur Stock Exchange over the period 1979-1998 are presented in this study. Overall the applicability of the capital asset pricing model in Kuala Lumpur Stock Exchange using monthly data is absent. Market risk alone or with another risk factors are unable to explain the variation in average returns. However, there is a significant non-linear relationship between average returns of individual stocks and market risk in two test periods 1983-86 and 1995-98.

This study also finds that other risk factors are significant in explaining the variation in average returns. Among them, skewness of the return distribution explains the variation in stock returns and portfolio during the test periods 1983-1986 and 1995-1998 respectively. Total risk accounts for the variation in stock or portfolio returns during the test period 1987-1990. Firm size is a significant variable during the period 1995-1998 but the positive relationship obtained contradicts those obtained by other studies. Lastly, price-to-book value ratio appears to explain the variation in returns during the period 1992-1995 and the combined period 1992-1998 when portfolios were sorted by size then by beta.
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