ABSTRACT

This study examines the behaviour of the stock market in Malaysia and its implication on the weak form efficiency of the Efficient Market Hypothesis. Daily data of the number of stocks advancing, declining or remaining unchanged in price and the closing levels of the stock market indices of the Main Board, seven main sectors of the Main Board and the Second Board of the KLSE were used in this study. The period covered was from January 1994 to December 1998, a total of 1233 trading days.

The results using the Theil-Leenders test indicates that there is some dependence in successive values of the proportions of stocks advancing, declining or remaining unchanged in price at the KLSE. There is sufficient evidence, using autocorrelation tests, to reject serial independence of successive daily difference between the proportion of stocks advancing and proportion of stocks declining in price and also to reject serial independence in the daily logarithmic returns of the stock market indices. Granger causality procedure was used to analyze the co-movement between the time series defined by the difference between the proportion of stocks advancing and proportion of stocks declining in price and the time series of the corresponding market index returns. The results indicate that the difference between the proportion of stocks advancing and proportion of stocks declining in price Granger causes the time series of the corresponding market index returns in all the groups but the reverse is true only in the Trading & Services and the Property sectors. These results suggest that the Malaysian stock market is not weak form efficient.

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