CHAPTER 5:

CONCLUSION &

RECOMMENDATIONS

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5.1 Summary and Conclusion

From the result obtained in the previous chapter, I can conclude that regardless stocks are selected based P/B, P/E and P/S ratio though it will show that value stocks outperform the growth stocks, the t-value indicate that stock selection based on ratios would be indifference. Though previous study shows that there were value premium existed in Malaysia during 1975 – 1997 (Ding et al., 2005), however that value premium seems to evaporate after 1997. This is further supported with findings in this report.

In addition, as explored in the previous chapter, the close study of the t-value of the results indicates that selecting stocks based on these variables would be indifferent for both value and growth. This means that the equally weighted approach adopted in this paper shows that the overall market does not support the value investing by investors. In addition, it shows that growth investing also do not yield the desired returns anticipated by growth investors.

The results also show that when value and growth portfolios are measured for it risk adjusted measures, both portfolios indicate that it underperforms the market and also the level of its associated risk does not commensurate with its infinitesimal returns.

As a result, in order for investors to reap maximum gain from Malaysia’s capital market, therefore, it is advised that for any future investors, rather than selecting stocks based on these variables to invest, they would do better to invest in index funds offered from any reputable unit trusts that tracks the top

30 companies' movement in Malaysia. This would align the return of the portfolio (index fund) with the movement of the stock market in Malaysia. Hence, the returns gain from this fund will correspond to its level of risk.

5.2 Limitation of the Study

During the period of conducting this research, I have identified several limitations. One of the limitations is where the benchmark of the portfolio being compared to. In practice, most analysts when evaluating their portfolio performance would normally refer to the Kuala Lumpur Composite Index (KLCI). This means that they referred to KLCI as the market return benchmark and compared it to the return obtained by any particular portfolio under their supervision. However, the utilization of KLCI is only a reference for the top 30 companies listed in the market exchange. The value is calculated based on their market capitalization (closing price of the share multiply with number of outstanding shares of the company).

However, in this research, all the portfolios were formed based on the equally weighted method on which the selected company was taken into account to form the portfolio irrespective of the value of their market capitalization. However these shares are subject to a certain criteria set forth in the methodology section. The purpose of this exercise is to provide a vivid picture of the overall stocks market in Malaysia.

Hence, for this research, the most accurate benchmark would be the Emas Index (EMAS). EMAS is an index that consists of all stocks in the market, regardless of the market capitalization with the exemption of the ACE board.

However, this index only takes into effect in the year 2006. My portfolios in this research were formed from the year 2001 until the year 2006; therefore any reference to this index (EMAS) would be futile in order to get the true benchmark to compare against these portfolios.

Hence the utilization of the KLCI as the benchmark in this research is justified.

5.3 Suggestions for Future Research

The portfolios formed in this research were only for the year 2001 until the year 2006. Though the results show that value premium does exist in Malaysia as much other countries as previously researched, nonetheless this hypothesis hopefully can be expanded through a longer time span, preferable longer than 10 years to see whether there is a consistency in the overall performance of the value stocks in Malaysia. This is also to study the historical pattern of returns of the portfolios against the return of the market.

Previous research done in Singapore was using a time span from the year 1975 until the year 1995, a total of 5 years period for the 20 years span. By adopting the previous methodology as set forth by Jenn (2004), this will provide the clearer picture of the trend of stock markets in Malaysia.

Moreover it is suggested that future researchers could do a latest research on countries in the Pacific Basin as done by Jenn (2004) which also include Malaysia to see where Malaysia stands in terms of ranking positions among Asian countries. Especially during this period when the need to go global and trading shares overseas are easier with the existence of online trading.

Furthermore, to establish whether the consistency of the result obtained herein is consistent, it is suggested that future research would adopt a method of forming the portfolio based on value weighted rather than equally weighted as adopted by me in this research. By doing so, this will surely satisfy the usage of KLCI as the benchmark as this bench adopted the value weighted valuation approach that inclusion of stocks in this index are subject to the value of its market capitalization.

This is to indicate whether method adopting equally weighted or value weighted would show any results of consistency and discrepancies as achieved in this research.

Lastly, as suggested by Brown et al., (2008) that for any research done on the topic of value or growth investing in the future to include the transaction costs or any other associated costs with its respective fee imposed by relevant countries as to know whether these costs would have direct implication on returns for these portfolios. This is practically applicable if researchers intend to adopt an active stock management approach in their study.

5.4 Implications

With the findings from this research, I can pessimistically conclude that value investing as practiced by well-known investors such as Warren Buffett, Peter Lynch and Walter Schloss may not be very well work in Malaysia. Though the time span adopted in this research is merely 5 years in period under study, nevertheless , it can gives a concentrate evidence that one that does practice value investing may not be very well compensated with the level of risk undertaken.

Fund managers also may well set up a fund that consists of value stock and growth stock in order to attract potential investors that prefer long term gain to invest in their fund. This also indicates that Malaysian stock markets also deny the theory behind efficient market hypothesis (EMH) as judges to the format of formation of the portfolio (equally weighted versus value weighted).