

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Discussion

The study finds the existence of the U-shaped curve in the indices returns variances which is consistent with the behavior of intraday returns variances of other bourses. This observation contradicts the weak form efficient market hypothesis.

The empirical evidence shows that the mean returns are not sufficient to cover the round trip transaction costs. However, the U-shaped curve behavior of the indices returns variances appears to be a permanent phenomenon. One possible explanation is that fund managers use the closing prices as the standard of measurement for the performance of their portfolio. Thus, they will bid up the closing prices so as to increase their mutual fund net asset value. When the market reopens, the price will be readjusted downward to its true value. The U-shaped pattern of the indices returns variances confirms the findings of Cheung (1993) that the pattern exists even without the existence of a specialist trading system.

The intraday volatility of the indices returns variances suggests that an investor should demand a higher return in the morning as compared to afternoon for compensation of the higher risk that they face.

5.2 Conclusion

This study examines the intraday pattern in the market returns and volatility in the Kuala Lumpur Stock Exchange. Unlike the United States case where the return variance pattern is a smooth U-shaped curve when plotted against the time of day, the Kuala Lumpur variance pattern is formed by a double U-shaped curve, similar to the Hong Kong findings but differs in the timing when the two curves meet. The findings concur with Cheung (1993) that the pattern exists even without the existence of a specialist trading system. Empirical evidence also suggest that there is insignificant difference in intraday returns between the large and small firms stocks.

The findings also show that there are significant differences between the non-trading overnight break and the active intraday daily session as a result of price manipulation towards the end of trading day. Even though the morning session shows much higher volatility, however, there is no significant difference in returns between morning and afternoon sessions. In addition to that, there is no significant deviation in open-to-open and close-to-close returns. This is due to the fact that during the close to open period, our market is completely close and none of our stocks are actively traded. Last but not least, the positive correlations between returns in each of the four intraday time-intervals and the returns in the immediately preceding intervals does not support the hypothesis of frequent price reversals for the small-sized stocks.

5.3 Recommendations for Future Research

For future research, we recommend the following:

- i) An investigation into the interday activities based on the intraday data.
- ii) An investigation into the intraday returns by further partitioning the returns into weekday and timing intervals.
- iii) An investigation into the intraday trading volume.
- iv) An investigation into the first and last few transactions on individual stocks to ascertain the price manipulation activities.
- v) An investigation into the intraday returns and volatility of the individual stocks to filter the biases of large-capitalized stocks and the non-adjustment in dividend payout.