

CHAPTER SIX CONCLUSION AND RECOMMENDATIONS

6.1 Summary and Conclusion

To summarise, rating announcements on the four major classes of ratings viz. initial assignment, reaffirmations, upgrades and downgrades produced no major impact on market efficiency in the semi-strong form and on stock returns. As explained earlier, the Malaysian market is considered efficient in the sense that the market did not show any abnormal returns on announcement day and during its pre and post announcement periods. The investing public, realising no new or irrelevant information dissemination upon the rating announcements, did not react. Even the total average impact for the 11- day event window period failed to create any significant abnormal returns at 95% confidence level, implying a matured market as far as bond rating announcements are concerned.

6.2 Suggestions for Additional Research

As a follow up to this study further research could be undertaken by broadening the time frame and adding in bigger sample sizes to see whether differences exists in the results. Another area worth noting is the impact of bond ratings at different economic time periods. For example, the impact of bond ratings during inflationary and deflationary periods would be a good candidate for further study. Relating to rating announcements research has also been carried out on intra-industry effects. This area could also be carried out here along the same line. Among the rating classes, ratings watch was excluded for this study. A bond is put under ratings watch upon the occurrence of certain events. Hence a study on the impact of bond ratings (ratings watch) on market efficiency in the semi-strong form and equity returns would be a good candidate for further research.

6.3 Implications

The absence of abnormal returns on announcement day and during pre/post announcement day implies that investors would not be able to profit by making investment decisions based on reports of rating agencies. Ratings carried out by agencies are based on several factors of a company such as profitability, short term, long term profitability and liquidity ratios and many other factors. Most of these factors would have filtered out to the investing public through interim/final reports, company announcements or even reports in the media way before RAM makes its periodic announcements on ratings. Unless RAM's rating announcement contains new information not otherwise available before announcement day, RAM's rating announcement will only be historical. RAM reports made available to the investing public would not be taken seriously by the investing public if it contains no new or relevant information. RAM has to play a pro-active role in this area if it is to be counted as a lead player by the investing public.

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