



**CHANGES IN ASSET CORRELATION
IN MALAYSIAN STOCK MARKET**

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ABSTRACT

The question of whether each asset in Malaysia stock market is integrated is an important one. Thus, this study aimed to discuss the changes in asset correlation in Malaysian stock markets focusing on each sector in Bursa Malaysia main board. The main objective of this paper is to investigate whether the asset are correlate with each other or not in four different market condition which is during bear markets, recovery, stable or booming. Furthermore, this paper also investigates regarding asset covariance, correlation and auto-regression. The study analyzed published data from datastream by using monthly prices for 50 stocks beginning in year 1998 until 2007. There are 4 phases in the study which is during recession (1998-2000), recovery (2001-2002), market stability (2003-2005) and during market booming (2006-2007). The result showed that assets have a strong correlation during market recession and market stable. However, during market recovery and booming, assets tend to have weak correlation between each other. This situation occurs in covariance analysis. The results suggest that the search for a better understanding of the assets correlation between sectors must continue.

CHAPTER 1

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

This paper examines the changes in assets correlation in Malaysia's stock market which consist of consumer products, industrial products, construction, trading/services, infrastructure, finance, technology, hotels, properties, plantation, mining and REITs, using monthly price from 1st January 1998 to 1st August 2007. There are 4 phases in this paper which is during recession (1998-1999), recovery (2000-2002), market stability (2003-2005) and during market booming (2006-2007). Naasir(1983), Laurance (1986), and Barnes (1986) concluded that despite being small and thinly trade market, Malaysian stock market is surprisingly quite efficient in the weak sense.

In order to preserve the financial integrity of the market and enhance investor protection from manipulative activities of speculators and managements of companies, the Securities Commission was formed in March 1993 and the main board sector was revamped. This resulted in a regrouping the companies into 12 separate sectors. The KLSE composite index is among the popular market barometer. The KLSE finance index comprises 44 companies, the properties index 94 companies, consumer product index consist of 86 companies, trading