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UNIVERSITI TEKNOLOGI MARA
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"PORTFOLIO MIX: THE RELATIONSHIP BETWEEN SECTOR INDICES IN BURSA MALAYSIA"

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TABLE OF CONTENT

ABSTRACT

This study is prepared as part of requirement to complete Bachelor of Business Administration with (Honors) Finance. The objective of this study is to see the relationship among seven (7) sectors in Main Board of Bursa Malaysia. In this study, samples are taken from seven (7) sectors in Main Board of Bursa Malaysia. The selected sectors are: Consumer Product, Finance, Industrial Products, Properties, Technology, Plantations and Constructions. This study highlights the best mix of sectors in Main Board of Bursa Malaysia that investors can combine in their portfolio. The data consists of daily basis closing indices prices of seven (7) sectors as at the beginning of 2001 over a five (5) years period from January 2001 to December 2005. The method used is Pearson-Product-Moment Correlation Coefficient. The findings show that the investors can invest in any sectors mix based on their risk tolerance. Investors that are willing to invest in high risk sector can invest in Finance & Industrial Products Sectors, Property & Industrial Products Sectors, Construction & Property Sectors, Construction & Technology Sectors and Property & Technology Sectors. The best sectors to invest in are Technology and Property Sectors while Plantation Sector shows the weakest correlation with other sectors.

1.1 INTRODUCTION TO THE STUDY

1.1.1 OVERVIEW OF PORTFOLIO OPTIMIZATION

Portfolio Optimization (also referred to as Tactical Asset Allocation) is the process of analyzing the portfolio and managing the assets within it, to obtain the highest return given your level of risk. Through Portfolio Optimization, it will helps to ensure that, given the investor choice of portfolio assets, the investor are holding the appropriate amount or weighting of each asset to achieve the highest returns, at the investor desired level of risk. To give a better understanding of the factors that contribute to the relative optimality of the portfolio, Portfolio Optimization provides a return/volatility profile of each portfolio asset, and data on the correlations between portfolio assets.

Portfolio Optimization is a "free lunch" in that an investor gains additional expected return without taking on additional risk. It enables an investor to allocate and rebalance portfolio assets based upon the overall target return/volatility profile they desire for their portfolio. It also enables the investor to achieve an optimal portfolio, in which assets are allocated (weighted relative to the total portfolio) so as to produce the best possible return given a certain desired level of volatility or risk.

Portfolio theory is used to construct an optimal portfolio from the universal set of stocks. Investment management in today's dynamic markets is a wonderful, turbulent, fascinating, hopeful, anguishing and stressful process of competing in the world's most