



**THE EFFECT OF MARKET CAPITALIZATION
ON PORTFOLIO CONSTRUCTION**

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ABSTRACT

This study conducted in order to construct an optimal portfolio based on market capitalization. To see whether there are different between the portfolios with large market capitalization and small market capitalization. And to observe the effect of the efficient portfolio toward changes in market condition. In order to analyzed the market capitalization effect on efficient portfolio, this study using 30 securities which being listed in Bursa Malaysia and selected based on their size. The sample data were taken by monthly basis starting from 1st January 1997 until the end of July 2007. The time period is then divided into 2 sub-periods for enable an observation of efficient portfolios' reaction toward the changes in market condition.

The efficient portfolio construction used Portfolio Optimization model where all the securities risk and return is measured. And ranked the securities according to their desirability to be included into the efficient portfolio using cut-off rate C^* and weighted to determine the appropriate percentage to be invested. The study found that small-market capitalization portfolio is more efficient compared to the large-market capitalization portfolio. And there is a significant effect of market trend toward the efficient portfolio construction thus, there is an effect between market-capitalization's of securities to efficient portfolio.