INVESTMENT BENEFITS OF CROSS SECTORS DIVERSIFICATION ON TWO BOARDS OF BURSA MALAYSIA

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ABSTRACT

The purpose of this study is to determine the prospects of cross sectors diversifications of selected stock price movement listed on the Main and Second Board on the Bursa Malaysia. This is basically to see the cross sectors diversification based on the return portfolios, coefficient of variation and standard deviation of the chosen stocks. The data consists of monthly closing prices of the top forty (40) stocks based on the market capitalization as at the beginning of 1998 over a 6 year period from January 1998 to December 2003 on the two boards of Bursa Malaysia. From the results, based on the return portfolio, it shows that all the twenty (20) stocks of Main Board have good performance if combined with **MYINFO** from Second Board. According to the coefficient of variation, mostly Main Board stocks have good combination with the **CREST** from the Second Board. Besides, according to cross diversification based on the standard deviation, shows that most Main Board stocks have good combination with **TOYOCEM** from the Second Board. The cross sectors diversification exhibit significantly low positive correlations between forty sectors under investigation. The positive correlations impede the process of risk reduction, which is the main trust of portfolio diversification as proposed by Markowitz. While the finding of an alternative investment strategy is beyond the scope of this paper, it is worth considering investing based on international diversification. The high growth sector, particularly those listed on the newly formed Malaysian Exchange of Securities Dealing & Automated Quotation Bhd (MESDAQ), promises potentially higher returns that should be cushioned against probable high risk.

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CHAPTER ONE

BACKGROUND OF STUDY

1.0 Introduction

Investors and fund managers very often encounter a difficult task when trying to create their investment portfolios that will offer them the best possible rewards. How do fund managers measure their client's risk tolerance and find the optimal return for that tolerance level? With thousands of mutual funds available, the consequences of choosing one fund over another can be hard to evaluate and even harder to explain to a client.

In order to maximize profit and minimize risk, investors and fund managers should diversify, and one should not invest into a single stock. Therefore, it is important for investors to discover the benefits that diversification can offer. Investors should spread their risk and opportunities as much as possible by investing in an array of different stock market securities, since diversification protects one from unexpected losses as a result of market volatility.