

**RELATIONSHIP BETWEEN BURSA MALAYSIA COMPOSITE
INDEX AND STRAIT TIMES INDEX, NIKKEI INDEX, KOREA
KOSPI INDEX AND HANG SENG INDEX**

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ABSTRACT

This paper studies the relationship between Kuala Lumpur Composite Index and foreign stock market for the period of six years. Four representative of the foreign stock market that are selected are Strait Times Index (Singapore), Nikkei 225 Index (Japan), Korea Kospi Index (Korea), and Hang Seng Index (Hong Kong) The relationship of the stock market is analyzed for the period from January 2000 until December 2005. The data consist of daily closing price of stock market indices. For the purpose of the study, the researcher will analyze the data gathered from the newspaper, magazines, journals, broadcasting media and internet. The researcher will take about five-year comparison on the stock market price. The researcher will see the movement of the stock market and be able to determine their relationship. The multiple regression and linear regression method are used in order to know the relationship between one index with the other indices. The hypothesis testing (t-statistic) and coefficient of the determinant (R-square) are used to analyze the relationship between the dependent and independent variables. The result from the simple linear regression found that there are positive relationship between the Strait Times Index and Nikkei 225 Index with Kuala Lumpur Composite Index. Meanwhile, there are negative relationship between Korea Kospi index and Hang Seng index with Kuala Lumpur Composite Index. The t-statistics shows that there is significant relationship between Kuala Lumpur Composite Index with the other index. Through the finding in multiple regressions, the researcher found that there is positive relationship between the Strait Times Index and Nikkei 225 Index with Kuala Lumpur Composite Index. Meanwhile, there are negative relationship between Korea Kospi index and Hang Seng index with Kuala Lumpur Composite Index. According to the t-statistic, there is no significant relationship between all the stocks that being selected with Kuala Lumpur Composite Index.

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1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Recently, most of the investors have a greater interest in international investment especially in the countries that have huge growth potential and a strong track record.

One of the major themes of modern portfolio theory concerns the merits of international diversification, i.e. it pays to diversify internationally, as long as stock returns in different national markets are less than perfectly correlated with the domestic market (Cheung and Mak, 1992)

Therefore, it is important for the investors to identify the relationship between the local and foreign market before they invest in international investment.

This study shall investigate whether there are relationships between Bursa Malaysia with other Asian Pacific Stock Exchange which are Singapore Exchange, Tokyo Stock Exchange, Korea Stock Exchange and Hong Kong Exchanges and Clearing.