TESTING A WEAK FORM MARKET EFFICIENCY : A CASE OF FTSE BURSA MALAYSIA KLCI

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ABSTRACT

The weak-form of efficient market hypothesis (EMH) suggest that stock price fully reflect all relevant security information in the market such as historical sequence of prices, rates of return and trading volume data. Various studies have been made on testing weak-form market efficiency but the results are mixed. Besides, the study is conducted to investigate whether the selected indexes follow the Random Walk hypothesis or not. Hence, this study is an attempt to test on Bursa Malaysia Stock Exchange where examining whether the market is efficient or random over the period of time of the study. The aim of the study is to examine the efficiency of the weak-form efficient market hypothesis (EMH) on the Bursa Malaysia Stock Exchange. The variables associated are stock market index selected from Bursa Malaysia Stock Exchange towards the market efficiency. Data used in this study are the daily closing price, weekly closing price and monthly closing price which obtained from Bursa Malaysia Stock Exchange that covering the period commencing from 1st January 2011 until 31st December 2015 which taken as the observation period. The indices include is FTSE Bursa Malaysia KLCI (FBMKLCI). Four different statistical test including descriptive analysis, Augmented Dickey-Fuller (ADF) unit root test, Philips-Perron (PP) unit root test, autocorrelation test and run tests were used in resulting the efficiency of the weak-form EMH.

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Over 50 years ago, the efficient market hypothesis (EMH) is one of the main strictly academic research and contention especially in finance and economics as the fundamental theory in explaining the movements of stock prices. The accepted view is that markets will operate efficiently when the current stock prices fully reflect all the relevant information available in which it will lead the investor difficult to receive abnormal returns consistently. By referring the article of FAMA in 1970 the efficient market theory is known as *fair game model* in which the investor believe that the current stock price fully reflect all available information that related with the stock. In the FAMA article, it has divided the efficient market hypothesis (EMH) into three sub-hypothesis which are the weak-form of EMH, semi-strong form of EMH and strong-form of EMH based on the information that involved in each EMH.

The weak-form of efficient market hypothesis (EMH) is to be said that the current stock price are fully reflect all security information which comprises the past history of prices, rates of return, trading volume and also other market related information such as transaction in odd-lot and by market-makers. Therefore, if investors do a research on the historical record of stock prices and spot some kind of pattern it can be seems to be repeated. Their attempts to exploit that pattern through trading will lead to the pattern disappear over time. In short, the weak-form of EMH should not have any relationship with the future return in which the past record data cannot be use in predicting future price of stock. So that, the investor should gain little from using any trading rule that indicates either should buy or sell the stock based on past rates of return or any other past security market data.