

**PORTFOLIO CONSTRUCTION AND PERFORMANCE  
MEASUREMENTS OF KUALA LUMPUR COMPOSITE  
INDEX (KLCI) LISTED COMPANIES**

**SITI ZUBAIDAH BINTI SAMSUDIN  
2014711251**

**Submitted in Partial Fulfillment  
of the Requirement for the  
Bachelor of Business Administration (Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
SEGAMAT, JOHOR.**

**DECEMBER 2016**

## ACKNOWLEDGEMENT

All praise to the Almighty Allah S.W.T for giving me the strength and patience in completing this research paper. Without the grace and help of Allah S.W.T , it would be impossible for me to have mental and physical abilities as well as other positive attributes notably perseverance to complete this challenging research paper.

Special mention goes to my research advisor Prof. Dr Haji Omar Bin Samat for his time, moral support, ideas, supervision and continues guidance throughout the period of this study in order to complete this research paper. His constructive comments and suggestions greatly assist in the successful completion of this research paper.

I would like to extend my appreciation to each and every one of you who have assisted in one way or another in order for me to complete this research paper. Sincere thanks to all my friends and office colleagues for their understanding, kindness and moral support during the testing time undertook to complete this research paper.

My deepest gratitude to my beloved parents, Samsudin Bin Ibrahim and Robakyah Binti Amzin and also for my family members for their support, invaluable assistance and sincere blessing. Special thanks goes to special person, for understanding and morale supports.

Thank you.

<b>Table of Contents</b>	
ACKNOWLEDGEMENT .....	iv
LIST OF TABLES.....	vii
ABSTRACT.....	viii
CHAPTER 1 .....	1
1.0 INTRODUCTION .....	1
1.1 BACKGROUND OF THE STUDY .....	1
1.2 PROBLEM STATEMENT .....	2
1.3 RESEARCH OBJECTIVES .....	4
1.4 RESEARCH QUESTIONS.....	4
1.5 SIGNIFICANCE OF STUDY.....	5
1.6 SCOPE AND LIMITATION OF DATA .....	6
CHAPTER 2 .....	7
2.0 LITERATURE REVIEW .....	7
2.1 INTRODUCTION.....	7
2.2 PORTFOLIO CONSTRUCTION .....	7
2.2.1 Consideration Of Portfolio Construction .....	8
2.3 PORTFOLIO PERFORMANCE MEASURES.....	9
2.3.1 Sharpe Performance Measurement .....	9
2.3.2 Treynor Performance Measurement .....	11
2.3.3 Jensen Performance Measurement.....	12
2.3.4 Abnormal Return Measurement and paired T-test.....	14
2.4 SOME STUDIES ABOUT ARTIFICIAL INTELLIGENCE METHODS AND FORMING PORTFOLIOS .....	15
2.5 TREASURY BILL (T-BILL).....	16
CHAPTER 3 .....	17
3.0 RESEARCH METHODOLOGY.....	17
3.1 INTRODUCTION.....	17
3.2 SAMPLE OF DATA .....	17
3.3 RESEARCH DESIGN .....	18
3.3.1 Construction of Portfolio .....	18

## ABSTRACT

Nowadays, many people do not know the ways of how to buy a shares. So, this research is focuses on how to select the best portfolio and then measuring the selection of portfolio. This research paper study on the performance of Kuala Lumpur Composite Index (KLCI) listed companies by using 100 shares which is all of the shares is listed in the Bursa Malaysia. The objectives of this study is to construct portfolio from the shares listed in the Bursa Malaysia and to measuring the portfolio selection. The period for selecting the portfolio is 5 years which is from 2008 until 2012. While, the methods that had been used for selecting optimal portfolios is Efficient Frontier Model. Then, the performance of Kuala Lumpur Composite Index (KLCI) listed companies was measured by using market-based measurements which is Sharpe, Treynor and Jensen performance measurement and also by using abnormal return and paired T-test. The period to measure the performance of portfolio selection is 3 years which is from 2013 until 2015. The data of this research paper include total return index, 3-month treasury bills, beta, residual variance, market variance, market return and standard deviation. All data collected are in monthly basis.

## **CHAPTER 1**

### **1.0 INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

FTSE Bursa Malaysia KLCI also known as the FBM KLCI, is a capitalization-weighted stock market index. On 4 April 1986, it was first introduced as the Kuala Lumpur Composite Index (KLCI), with a base value of 100, dated on 1 January 1977.

Bursa Malaysia was partnered with FTSE to provide a suite of indices for the market of Malaysian in order to enhance the KLCI in 2006. To replace the KLCI, one of the indices was created which is FTSE Bursa Malaysia. On 6 July 2009, the new index was adopted with the opening value taken from the closing value of the old KLCI on 3 July 2009.

Kuala Lumpur Composite Index (KLCI) is derived from 100 companies where Bursa Malaysia has chosen from a cross section of the total listed companies in Malaysia. The process of being chosen is much more complex because company must meet eligibility requirements of the FTSE Bursa Malaysia Index Ground Rules which is market capitalization. This index is jointly operated by FTSE and Bursa Malaysia. KLCI is taken to be representative of our stock market's performance. This index also provide us with a benchmark that reflects the growth of Malaysia's economy.

The performance of Kuala Lumpur Composite Index (KLCI) listed companies need to be measure in order to know whether the portfolios are in a good or poor