

MARA INSTITUTE OF TECHNOLOGY SHAH ALAM

CAPITAL ASSET PRICING MODEL:
AN EVALUATION OF ITS RELEVANCE IN
TRADING AND SERVICES SECTOR OF
KUALA LUMPUR STOCK EXCHANGE

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A PROJECT PAPER SUBMITTED TO INSTITUTE TECHNOLOGY MARA IN PARTIAL FULFILLMENT FOR BACHELOR OF BUSINESS STUDIES (FINANCE)

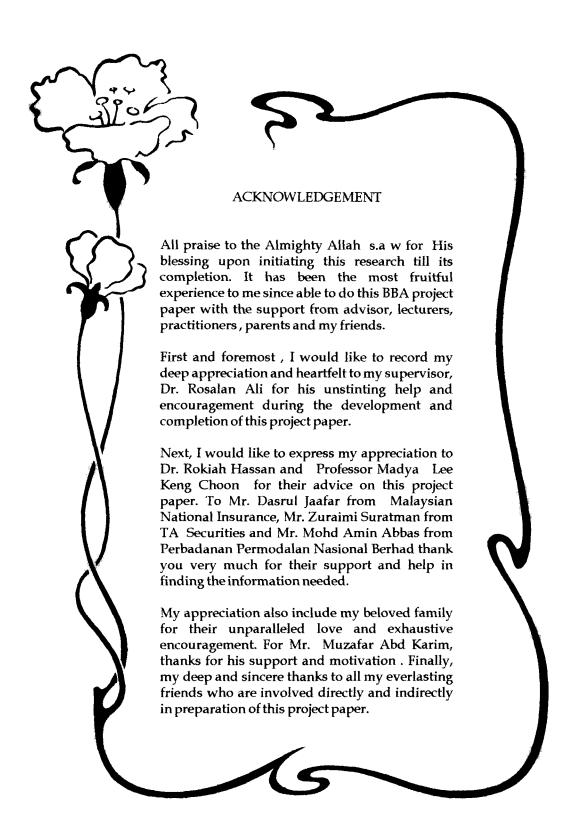
NOVEMBER 1996

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ABSTRACT

This project paper is a study to determine the relevancy of CAPM in Trading and Services Sector that are listed in the Kuala Lumpur Stock Exchange. The data used for analysis were monthly last transaction stock price and the monthly Kuala Lumpur Stock Exchange Composite Index. It is collected for sixty months period commencing on the 1st January 1991 to 31st December 1995. Expected return and actual return of the stock is used to determine the relevancy of the CAPM and Simple Regression Analysis is used to obtain the relationship between the return on stock and return on market. Security Market Line then is plotted to examine the pricing characteristic of the portfolio for period of study covers. The result of the analysis revealed that CAPM is not hold in Trading and Services Sector of Kuala Lumpur Stock Exchange for the period covers. Beta and market return are found influenced the risk - return relationship of the stock and the overall pricing characteristic of the portfolio is considered underpriced.