

**FINANCIAL RISK AND SHOCKS PERSISTENCE IN
MALAYSIAN TECHNOLOGY STOCK**

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ABSTRACT

This study investigates the financial risk exposure and the volatility shocks persistence of market and technology stock excess returns in Malaysia. Generalized Autoregressive Conditional Heteroscedasticity (GARCH) methodology has been employed in studying the relation between excess returns and their volatility as well as the relation between excess returns and financial risks, namely interest rate and exchange rate risks. The results of this study indicate that excess return volatility, interest rate risk and exchange rate risk are not significantly priced in the market and technology stock excess returns. However, technology excess returns are found to have higher volatility shocks persistence than the market excess returns. In general, stringent policy on the stock market after the 1997 financial crisis as well as the pegging of exchange rate and stable interest rate policy could have attributed to the insignificance of excess return volatility, exchange rate risk and interest rate risk in determining the above excess returns. Meanwhile, weaker shock absorbing capability in technology portfolio could be due to low investment diversification since technology portfolio only consists of technology stocks.