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CAPM: DEAD OR ALIVE IN MALAYSIA?

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I. INTRODUCTION

Investment in stock has become quite a popular activity all over the world. While many investors have made their fortunes, many others have gone broke through this activity. This is because stock prices have fluctuated rather violently over time in all countries. In Malaysia, for example, those who invested in the LKSE-Composite index in 1987 and sold out their holdings in the peak period of 1994 earned an annual rate of return of around 16 per cent. In contrast, those who invested in 1993 and divested in the worst time in 1998, suffered an annual loss of around 40 per cent. Thus, to profit from this activity, the investors have not only to select the right stocks but also to enter/exit from them at the right time. Unfortunately, a significant proportion of the investors are not well trained in stock market analysis and/or do not devoted adequate tome to this activity before undertaking such investments/dis-investments. They are often guided by rumours and follow others' (bandwagon) tendencies. Further, stock pricing is a difficult subject and thus even the well-trained investors/consultants at times are unable to explain such price movements. To minimise this problem, finance academicians have been offering improved and simplified techniques for stock market analysis.