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THE EFFECTS OF REGULATED SHORT SELLING ON STOCK RETURNS OF AFFECTED COMPANIES

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MASTER OF SCIENCE FINANCE
UNIVERSITI UTARA MALAYSIA
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RETURNS OF AFFECTED COMPANIES

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ABSTRACT

Short selling is an investment technique that allows an investor to sell stocks which he does not own currently and buy later at possibly a lower price. In Malaysia, short selling trading was prohibited effectively from 5th September 1997 for the purpose of stopping speculation on stock during 1997 Asian Financial Crisis. Short selling activities were commonly designed or structured by local regulators, financial intermediaries, and investors for purposes of managing risks, increasing liquidity and strengthening market infrastructure. There is a lack of study on short selling in Malaysia, hence, this study focuses on “Regulated Short Selling (RSS)” in Malaysia and concentrates on stock price fluctuation on announcements of either a stock is being added into or withdrawn from the RSS list by Bursa Malaysia (BM). In this case, we could investigate whether short selling is welcomed by investors. A total of 259 stocks to be added into RSS list and a total of 121 stocks to be withdrawn from RSS list were retrieved from 2013 to 2016. Average abnormal return (AAR) and cumulative average abnormal return (CAAR) were taken to test on hypothesis in this study. The findings show that prices of stocks go up following the announcements of adding the stocks to the RSS list, stock prices would change surrounding the effective dates after it is added into the RSS list, and stock exclusions influence prices negatively on effective dates. Based on this research, to earn abnormal profits, an investor could try to predict RSS additions or removals by BM.
ABSTRAK

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<tr>
<td>BM</td>
<td>Bursa Malaysia</td>
</tr>
<tr>
<td>HKEx</td>
<td>Hong Kong Stock Exchange</td>
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<td>PIPE</td>
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CHAPTER ONE
INTRODUCTION

1.1 Introduction of the Study

An investment is undertaken as it is expected to generate positive income and provide benefit to investors. A risk taker investor will invest their money in high risk investment such as options and real estate investments trusts (REITs). According to Gitman et al. (2011), investment is an activity that could be conducted by investors in the economy for their mission to increase capital or wealth. A formal definition of investment by Brown and Reilly (2002) refers to future payment to investors, for a period of time that will compensate the investors for the time of the fund invested, inflation rate during the investment period and the unforeseen investment value changes in the future payment.

Typically, there are two types of investors which are individual and institutional investors (Gitman et al., 2011). Individual investor refers to individual or household who invests for personal financial goal. Meanwhile, institutional investor is comprised of government, corporations, banks, pension funds, fund managers and insurance companies whom are paid to manage money of people for capital gain or for the purpose to increase the shareholders’ wealth (Gitman et al., 2011).

In this study, stocks listed on Bursa Malaysia (BM) are chosen to be the main focus of the investment strategy. As per audited report of BM dated 31st December 2016, there is a total of 805 Public Listed Companies listed in BM. This study has further narrowed down to examine the list of stocks on “Regulated Short Selling (RSS)”, to find out what are the effect of changes in stock prices when it is announced to be added into or withdrawn from
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REFERENCES


