

The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.



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

SITI MUNIRAH BINTI BAHARUDDIN



UUM
Universiti Utara Malaysia

**MASTER OF SCIENCE FINANCE
UNIVERSITI UTARA MALAYSIA
2017**

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

By

SITI MUNIRAH BINTI BAHARUDDIN



UUM
Universiti Utara Malaysia

**Research Paper Submitted to
School of Economic, Finance and Banking,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the
Master of Science (MSc) Finance**



**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PENYELIDIKAN
(Certification of Research Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)

SITI MUNIRAH BT BAHARUDDIN (820219)

Calon untuk Ijazah Sarjana
(Candidate for the degree of)

MASTER OF SCIENCE (FINANCE)

telah mengemukakan kertas penyelidikan yang bertajuk
(has presented his/her research paper of the following title)

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

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(as it appears on the title page and front cover of the research paper)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the dissertation).

Nama Penyelia : **Prof. Madya Dr. Kamarun Nisham Taufil Mohd**
(Name of Supervisor)

Tandatangan : 
(Signature)

Tarikh : **15 Jun 2017**
(Date)

DECLARATION

I declare that thesis work described in this research paper is my own work (unless otherwise acknowledged in the text) and that there is no previous work which has been previously submitted for any academic Master's program. All sources quoted have been acknowledged by reference.

Signature :



Name :

Siti Munirah Binti Baharuddin

Date :

June 2017

PERMISSION TO USE

In presenting this dissertation in partial fulfillment of the requirement for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in their absence, by the Dean of School of Economic, Finance and Banking where I did my dissertation. It is understood that any copying or publication or use of this dissertation parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation. Request for permission to copy or to make other use of materials in this dissertation in whole or in part should be addressed to:

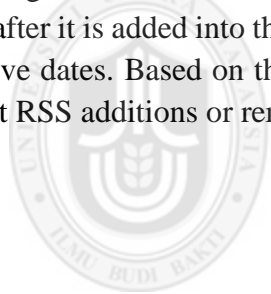


Dean of School of Economic, Finance and Banking
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman

Universiti Utara Malaysia

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.



Universiti Utara Malaysia

ABSTRAK

Jualan singkat adalah satu teknik pelaburan yang membolehkan pelabur untuk menjual saham yang tidak dimiliki pada masa kini dan membeli kemudian pada harga yang lebih rendah. Di Malaysia, perdagangan jualan singkat dilarang sejak 5 September 1997 untuk tujuan menghentikan spekulasi pada saham berikutan krisis kewangan Asia. Aktiviti jualan singkat biasanya direka oleh pihak berkuasa tempatan, pengantara kewangan, dan pelabur untuk tujuan pengurusan risiko, penigkatan kecairan dan pengukuhan infrastruktur pasaran. Terdapat kekurangan kajian mengenai jualan singkat yang terdapat di pasaran Malaysia. Kajian ini memberi tumpuan kepada "Jualan Singkat Terkawal (RSS)" dalam pasaran Malaysia dan menumpukan perhatian kepada pergerakan harga saham berikutan pengumuman sama ada saham akan dimasukkan ke dalam atau dikeluarkan dari senarai RSS oleh Bursa Malaysia (BM). Dalam kes ini, kita boleh menyiasat sama ada jualan singkat adalah dialu-alukan oleh para pelabur. Sebanyak 259 saham yang akan ditambah ke dalam senarai RSS dan sebanyak 121 saham yang akan dikeluarkan dari senarai RSS telah diambil dari 2013 hingga 2016. Pulangan purata abnormal (AAR) dan purata kumulatif pulangan (CAAR) telah diambil untuk menguji hipotesis dalam kajian ini. Keputusan kajian menunjukkan bahawa harga saham naik berikutan pengumuman penambahan saham ke senarai RSS, harga saham akan berubah sekitar tarikh berkuatkuasa selepas ia ditambah ke dalam senarai RSS, dan pengeluaran saham mempengaruhi kesan negatif kepada harga pada tarikh berkuatkuasa. Berdasarkan kajian ini, untuk mendapatkan keuntungan yang tidak normal, pelabur boleh cuba untuk meramalkan penambahan atau penarikan balik saham dari senarai RSS oleh BM.

ACKNOWLEDGEMENT

In the Name of Allah, the Most Forgiving and the Most Merciful

All praise belongs to Allah whom we worship. I would like to extend my deepest gratitude and thanks to Allah the Almighty for giving me excellent health, energy, and capability to complete my thesis.

Special thanks to my beloved mother, Rahimah Ibrahim who never stops praying for my success. My love to my family members as well for their support, understanding, and patience throughout my study.

My deepest appreciation goes to my academic supervisor, Assoc. Prof. Dr. Kamarun Nisham Taufil Mohd and thank you for your valuable time, guidance, opinions, suggestions, and encouragement throughout the preparation of this study.

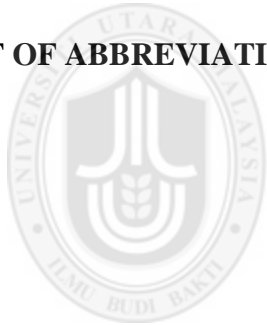
I also wish to thank my friends especially Farhan, Sufian, Fadli, Zainuddin and Hafizan and other lecturers in Universiti Utara Malaysia. Without their endless assistance, attention, care, encouragement, and sacrifice, it would have been hard for me to complete this study.

Finally, I wish to thank all individuals and institutions that have directly or indirectly contributed toward the completion of my Master dissertation.

May Allah ease everything you guys do.

TABLE OF CONTENTS

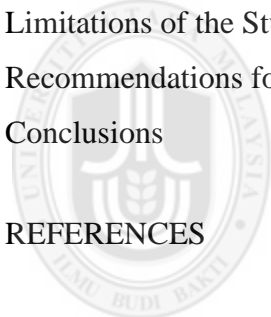
DECLARATION	I
PERMISSION TO USE	II
ABSTRACT	III
ABSTRAK	IV
ACKNOWLEDGEMENT	V
TABLE OF CONTENTS	VI
LIST OF TABLES	IX
LIST OF FIGURES	X
LIST OF ABBREVIATIONS	XI



UUM
Universiti Utara Malaysia

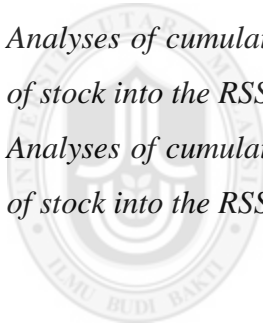
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction of the Study	1
1.2 Background of the Study	2
1.3 Problem Statement	3
1.4 Research Objectives	4
1.5 Research Questions	4
1.6 Significance of the Study	5
1.7 Scope of the Study	5
1.8 Structure of the Thesis	6
CHAPTER TWO: LITERATURE REVIEW	7
2.0 Chapter Overview	7
2.1 Theories of the Study	7
2.2 Progress of Short Selling Activities	8
2.3 Previous Studies on Short Selling	9
CHAPTER THREE: RESEARCH METHODOLOGY	13
3.0 Chapter Overview	13
3.1 Data Collection Procedures	13
3.2 Event Study Methodology	15
3.3 Research Framework	17
3.4 Hypotheses Development	18
CHAPTER FOUR: RESULTS AND ANALYSIS	20
4.0 Chapter Overview	20
4.1 Average Abnormal Returns in RSS List	21
4.2 Inclusions of RSS Stock Listed on RSS List in BM and Result Discussion Using CAAR	22
4.2.1 Effect of Stock Prices on Announcement Dates of Inclusions into the RSS List	22

4.2.2	Effect of Stock Prices on Effective Dates of Inclusions into the RSS List	25
4.3	Exclusions of RSS Stock Listed on RSS List in BM and Result Discussion using CAAR	27
4.3.1	Effect of Stock Prices on Announcement Dates of Exclusions into the RSS List	27
4.3.2	Effect of Stock Prices on Effective Dates of Exclusions into the RSS List	29
	CHAPTER FIVE: CONCLUSION AND RECOMMENDATION	32
5.0	Chapter Overview	32
5.1	Overview of the Study	32
5.2	Summary of Findings	32
5.3	Limitations of the Study	33
5.4	Recommendations for Future Research	34
5.5	Conclusions	34
	REFERENCES	35



LIST OF TABLES

3.1	<i>Data collection of Regulated Short Selling (RSS) from 2013 until 2016 on announcement and effective dates for inclusions and exclusions.</i>	14
4.1	<i>Analyses of average abnormal returns and p-value following inclusions and exclusions of stocks into the RSS list following the announcement and effective dates.</i>	21
4.2	<i>Analyses of cumulative average abnormal returns following inclusions of stock into the RSS list following the announcement dates.</i>	24
4.3	<i>Analyses of cumulative average abnormal returns following inclusions of stock into the RSS list following the effective dates.</i>	26
4.4	<i>Analyses of cumulative average abnormal returns following exclusions of stock into the RSS list following the announcement dates.</i>	28
4.5	<i>Analyses of cumulative average abnormal returns following exclusions of stock into the RSS list following the effective dates.</i>	30



Universiti Utara Malaysia

LIST OF FIGURES

3.1	<i>Theoretical framework of inclusions into RSS list</i>	18
3.2	<i>Theoretical framework of exclusions into RSS list</i>	18
4.1	<i>CAARs on announcement dates of inclusions</i>	25
4.2	<i>CAARs on effective dates of inclusions</i>	26
4.3	<i>CAARs on announcement dates of exclusions</i>	29
4.4	<i>CAARs on effective dates of exclusions</i>	31



LIST OF ABBREVIATIONS

Abbreviation		Meaning
BM	=	Bursa Malaysia
HKE _x	=	Hong Kong Stock Exchange
PIPE	=	Private Investment in Public Equity
RSS	=	Regulated Short Selling



UUM
Universiti Utara Malaysia

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

The contents of
the thesis is for
internal user
only

REFERENCES

- Bai, Y., Chang, E. C., & Wang, J. (2006). Asset prices under short-sale constraints. *University of Hong Kong, unpublished manuscript.*
- Bursa to introduce regulated short-selling. (n.d.). Retrieved from <http://www.bursamalaysia.com/market/securities/equities/trading/regulated-short-selling-rss/>
- Chang, Eric C., Joseph W. Cheng, and Yinghui Yu. "Short-sales constraints and price discovery: Evidence from the Hong Kong market." *The Journal of Finance* 62.5 (2004): 2097-2121.
- Chen, S. S., Chen, Y. W., & Chou, R. K. (2015). Short-sale constraints and option trading: Evidence from reg sho. *University of National Taiwan, unpublished manuscript.*
- Diamond, D. W., & Verrecchia, R. E. (1987). Constraints on short-selling and asset price adjustment to private information. *Journal of Financial Economics*, 18(2), 277-311.
- Figlewski, S. (1981). The informational effects of restrictions on short sales: Some empirical evidence. *Journal of Financial and Quantitative Analysis*, 16(04), 463-476.
- Gitman, L. J., Joehnk, M. D., & Smart, S. B. (2008). *Fundamentals of Investing* (11th Ed.). Boston: Greg Tobin.
- Henderson, Jr. and Glenn V. (1990). Market discounts and proceeds usage for seasoned equity offerings. *Investment Management and Financial Innovations*, 6(2)
- Jarrow, R. A. (1992). Market manipulation, bubbles, corners, and short squeezes. *Journal of financial and Quantitative Analysis*, 27(03), 311-336.
- Lin, T. C. (2012). Dynamic short-sale constraints, price limits, and price dynamics. *International Journal of Managerial Finance*, 8(3), 256-279.
- MacKinlay, A. C. (1997). Event studies in economics and finance. *Journal of economic literature*, 35(1), 13-39.
- Miller, E. M. (1977). Risk, uncertainty, and divergence of opinion. *The Journal of finance*, 32(4), 1151-1168.
- Online, T. S. (2006, October 13). Short-selling deferred to January - Business News. Retrieved June 12, 2017, from <http://www.thestar.com.my/business/business-news/2006/10/14/shortselling-deferred-to-january/>
- Reed, A. (2007). Costly short-selling and stock price adjustment to earnings announcements. *University of North Carolina, unpublished manuscript.*
- Staley, K. F. (1997). *The art of short selling* (Vol. 4). John Wiley & Sons.