STOCKS OPTIMIZATION IN PORTFOLIO DIVERSIFICATION IN MALAYSIAN STOCK MARKET

Prepared by: Shaeerah Hanoom Binti Mohd Alkat

ABSTRACT

In order to determine the return of a portfolio, individual investor needs a clear knowledge on the measurers and asset allocation of the investments. The relationship between risk and return and portfolio performance and the number of stocks held in the portfolio has long been of interest to many financial economists from the time when Harry Markowitz (1952 and 1959) introduces hid modern portfolio theory. Even though he explains how portfolio risk can be diversified efficiently through the increments in the number of stocks but it is believe that asset allocation is also important. The main objectives of this study is to investigate the relationship between risk and return of a portfolio and at the same time answering to the questions on the relationship of beta and return, influences of number of assets on risk and return, and the use of Standard Deviation and Variance in evaluating individual portfolio.

The research is based on the time frame of 5 years in the Malaysian Stock Market. 50 securities from 50 companies were chosen randomly from the 100 companies to avoid biasness. The securities then were divided into 5 portfolios of 10, 20, 30, 40 and 50 securities randomly. 2 portfolios of 10 securities of the same industry and 2 portfolios of random mix were formed for comparison purposes. The variables used in this study are beta, Average Abnormal Return (AAR), Standard Deviation and Variance.

The research aim is to educate the individual investors with portfolio evaluation and the relationship of risk and return. The findings and proofs has made us conclude that risk and return of a portfolio always have a positive relationship and there are many tools to be used by individual investors to measure the risk of their portfolio.

BACHELOR OF ARTS (HONS) IN FINANCE