THE EFFECT OF CAPITAL STRUCTURE AND SYSTEMATIC RISK ON STOCK RETURNS: EMPIRICAL ANALYSIS OF COMPANIES LISTED IN BURSA MALAYSIA

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ABSTRACT

The main objectives of this research are (1) to determine if capital structure affects stock returns (2) to examine if capital structure dynamic affects stock returns (3) to identify if market risk affects stock returns (4) to determine if market risk affects capital structure. This research used simple regression method to analyze the factors affecting the performance of stocks on companies listed in Bursa Malaysia over the period 2004-2008. This research used expected returns, actual returns, and risk-adjusted returns as proxy for stock returns. The hypothesis is that the capital structure, capital structure dynamics, and systematic risk significantly affect stock returns. The regression model revealed that leverage and changes in leverage significantly affect risk-adjusted return. However, these two variables do not have significant effect on actual return and expected return. Systematic risk significantly affects expected returns. Finally, this research revealed that systematic risk does not affect capital structure (DER, CDER). In general, the findings of this research are consistent with CAPM theory and default risk premium theory.

Keywords: Capital Structure, Systematic Risk, Stock Returns

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