THE ANNOUNCEMENT EFFECTS OF INSIDER TRADING

by

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DECLARATION

I hereby declare that the project paper is based on my original work except for quotations and citations that have been duly acknowledge. I also declare it has not been previously or concurrently submitted for any other Master's programme at Universiti Utara Malaysia or other institutions.

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ABSTRACT

This paper examines the insider trading activity in Malaysia. It tries to examine the existence of the abnormal profit from this activity. While developed countries like United States and United Kingdom recently reported that the activity can no longer gives abnormal profit for long period due to laws imposed in those countries, attention now turns to emerging market like Malaysia. By using event study analysis, 200 cases of insider trading activity reported between January 2008 and March 2009 were closely examine and the result shows that while abnormal return do exist, it is mostly not significant. This paper also looks at the individuals and institutional insider and their performances respectively.

Keyword: Insider trading; Event study

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LIST OF ABBREVIATIONS

CAAR	:	*Cumulative abnormal returns*
CMSA	:	*Capital Market and Service Act*
EMH	:	*Efficient market hypothesis*
ITSA	:	*Insider Trading Sanctions Act*
SIA	:	*Malaysian Securities Industry Act*
SICDA	:	*Securities Industry (Central Depositories) Act*

CHAPTER ONE

BACKGROUND OF STUDY

1.1 INTRODUCTION

The efficient-market hypothesis asserts that financial markets are "informationally efficient" in which prices on traded assets will reflect all known information, and instantly change to reflect new information. Therefore, according to theory, it is impossible to consistently outperform the market by using any information that the market already knows. When the market is said to be strong, it indicates no individual can have higher expected trading profits than others because of monopolistic access to information. However this conclusion does not hold in the existence of insider trading.

Insider trading is an activity of trading corporation’s stock or any other securities by individuals with potential access to non-public information about the company. The study on insider trading can be categorized into two broad areas. The first area of studies emphasis on insider trading regulation and their reaction to its enforcement. The second topic on insider trading which also attracts reviewer is regarding the profit of the insider.

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