

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSION

This research provides a pilot study on the trading suspension in the KLSE. An empirical investigation is conducted on the 471 sample suspensions in the KLSE in order to observe the announcement effect of the trading suspension. Price adjustments before and after the trading suspensions are noted and their corresponding graphs are postulated.

From the overall sample, we observed that there is little tendency for positive price adjustments over the trading suspension. Most of the price adjustments were felt two days prior to suspension. Thus, suspended securities as a group shows anticipatory return behavior prior to suspension. This pre-suspension anticipatory price behavior was consistent with insider trading, information leakages, correlated new announcements, or lags in the response of some investors to public information.

However, post-suspension abnormal returns for all suspensions as a group produce minimal mean values. This results reflect rapid adjustment to material new information over the suspension period. Thus, the post-suspension price behavior would presents little, if any, opportunity for systematic trading profits.

As for all favourable trading suspension, our results show rapid adjustment to favourable material new information disseminated during or possibly prior to trading suspension. Meanwhile, the post-suspension returns

for non-favourable suspension was considerably high in absolute value. Our finding was consistent with Kryzanowski (1979) that the market is not efficient in the semi-strong form for unfavourable new public information and the market appears to be efficient in the semi-strong form for favourable new information.

For voluntary and non-voluntary subgroups, our result shows similar findings for all voluntary suspensions. This is because voluntary suspensions consists of 97.5% of the overall sample. On the other hand, non-voluntary suspensions have larger mean abnormal returns over their trading suspensions. Because there are only 12 securities in this subgroup, we conclude that the results for non-voluntary suspension may be inconclusive.

We conduct further investigation into the abnormal return associated with the length of the trading suspension. Using 10 market days as the standard period for trading suspension, we divide the sample into 2 subgroups of less than or equal to 10 market days and of more than 10 market days. We discovered that mean abnormal returns were larger over the suspension period for non-standard suspensions. As such, we conclude that suspensions of longer period typically results in greater price adjustments probably due to more information flowing into the security during its trading suspension.

We reaffirm our premise that second board has more volatility than main board in our next test. Our results fully support our premise that second board suspensions will have greater magnitude in price adjustment as compared to the main board. Thus, the second board index are generally more volatile than main board.

On the whole, the results suggest reasonably efficient market reaction to significant new information. Trading suspension will remains an effective mechanism by the KLSE to halt trading in a security during disequilibrium condition. This move will prevent any drastic rise or fall in a security price

pending the actual new announcements. Investors will be able to trade in more confidence when the security reopens after assessing all the new information that may have a material effect on the market.

5.2 LIMITATION OF THE RESEARCH

The estimated abnormal return means and standard deviations may be biased due to possible misspecification of the “normal” return equation (the market model) and errors in measuring the market model parameters. Measurement errors in a security’s market model parameters estimated on historical return data could be particularly prevalent in this research because any new information associated with a trading suspension could alter the parameters. However, the very short time frame (6 days before and 7 days after the trading suspension) over which abnormal returns were estimated tends to diminish the impact of specification and measurement errors on abnormal return estimates. A typical range of market return for a single trading day is small relative to that for a monthly or quarterly period. Thus, even relatively large errors in estimating β , will have a very small impact on estimated abnormal returns.

In this research, we have assumed that new information is consistently being fed into the suspended security during the period of suspension. This has resulted in an upward or downward price movement over the suspension. However, since efficient adjustment might have occurred without suspension, we are hesitant to endorse the efficacy of trading suspension.

5.3 IMPLICATIONS

The efficiency implications of trading suspension has become increasingly important to market participants, regulators and academics. Regulators can use trading suspensions when they believe that a security is being traded with inadequate or poorly dispersed corporate information and the management of the affected firm can likewise request for suspension

when they are unable to comply with the request for public dissemination of that information within the normal trading activities. Investors, generally, are keen to know whether this kind of suspension will have any impact to the markets especially for their underlying stocks to enable them to make an economic profit.

Implicit in this research is the belief that a required public disclosure of information during a period when regular trading is suspended will (1) improve the strong form of market efficiency by making monopoly information publicly available to all investors, and (2) improve investor equity by ensuring that all investors have equal and costless access to all relevant information about the stocks they own or contemplate purchasing or selling.

Therefore, if trading suspensions are effective, information that was not already “fully reflected” in stock prices, must be conveyed to investors during the suspension period. The market, if it is efficient in the semi-strong form, should respond by impounding the new publicly available information into the opening stock prices on the dates of trading reinstatement. Furthermore, the direction of this price movement will depend upon whether the market assesses the “new” information as being “favourable” or “unfavourable”.

From this research, it shows that price adjustment to new information for suspended securities are rapid and immediate. A rapid upward movement in the security price was observed for new information treated as favourable and an equally rapid downward price movement in the security price was observed for unfavourable new information. In this case, the initiation of trading suspension has increased the efficiency of information dissemination such that more investors become informed, know and are aware of the new information being disseminated.

These research results are important for regulators, academicians, investors and speculators, portfolio managers and markets especially the KLSE in this current economic crisis because the Exchange can sanction

manipulative securities to avoid unnecessary tensions from the crisis. The KLSE is also considering the establishment of “circuit breaker” mechanisms. These results will support the argument for circuit breaker (both price limits and trading halts) as nontrading periods provide an opportunity for normal information transmission in times of market duress. Proponents of circuit breakers claim that, during major price changes there can be a breakdown in the transmission of information between the trading room and market participants. Therefore, “the primary function of a circuit breaker should be to reinform participants”. (Lee, Ready and Seguin, 1994). By lowering informational asymmetries between traders, halts could permit the orderly emergence of a new consensus price.

At the same time, the research results are important to academicians who seek to understand whether “informative” trading suspension were successful. Many academics are openly suspicious of any kind of market interference and assume that trading suspensions are guilty until proven innocent. Grossman (1990), for example, argues that the closing of markets “merely prevents consenting adults from carrying out their desires on the floor of the stock exchange.” Not only do halts impose a liquidity cost on traders, but studies suggest that information will not be as readily revealed during a halt as through continuous trading. (Miller, 1990)

Finally, the research results provide a general reference for market participants who would benefit from understanding the relationship of price adjustment behavior and the “favourableness” of the information revealed. This is particularly important for those investors and speculators who are holding or contemplating to buy or sell a suspended security. For portfolio managers, they may be able to perform better planning and implementation of their investment decision and better selection of investment portfolio with the guidelines of this research.

5.4 SUGGESTIONS FOR ADDITIONAL RESEARCH

To further test the announcement effect of trading suspensions in the KLSE, the total sample could be segmented into finer subgroups like industry sector, market capitalization and by individual securities. Looking at the total sample or between two subgroups alone is insufficient because it takes no account of price fluctuations between securities in different industry.

Finally, the efficacy of trading suspensions could be tested using Fama-Fisher-Jensen-Roll (FFJR) test. FFJR test is appropriate to empirically test the efficiency implications of trading suspensions. This test is capable of assessing whether new information is fully and rapidly reflected in stock prices after a trading suspension. (Kryzanowski, 1979).