STOCK RETURN REACTION TO
UNUSUAL MARKET ACTIVITY ANNOUNCEMENT:
EVIDENCE FROM THE ACE MARKET IN MALAYSIA

Chen Siong Yain

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STOCK RETURN REACTION TO UNUSUAL MARKET ACTIVITY
ANNOUNCEMENT: EVIDENCE FROM THE ACE MARKET IN MALAYSIA

CHEN SIONG YAIN

This project is submitted in partial fulfillment of the requirements for the degree of Corporate Master in Business Administration (CMBA)

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Statement of Originality

The work described in this Corporate Business Project, entitled
“STOCK RETURN REACTION TO UNUSUAL MARKET ACTIVITY
ANNOUNCEMENT: EVIDENCE FROM THE ACE MARKET IN MALAYSIA”
is to the best of the author’s knowledge that of the author except
where due reference is made.

__________________________
(Date Submitted)
Chen Siong Yain
14030349

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(Student’s signature)
ABSTRACT

STOCK RETURN REACTION TO UNUSUAL MARKET ACTIVITY ANNOUNCEMENT: EVIDENCE FROM THE ACE MARKET IN MALAYSIA

By

CHEN SIONG YAIN

This study examines the effect of Unusual Market Activity (UMA) announcement on stock return in Malaysian market with a sample of 62 companies listed on the ACE market Bursa Malaysia for the period of 2007-2015. This study employs event study methodology. More specifically, it employs the market model in generating abnormal returns surrounding subsequent UMA announcements. t-test is applied to evaluate the abnormal return from the market model. The findings show that there are few days in which the average abnormal return (AAR) and cumulative average abnormal return (CAAR) are statistically significant. In addition, this study also further investigates the abnormal return (AR) and cumulative abnormal return (CAR) for individual companies. It is found that majority of the stocks returns fell significantly 30 days after the UMA announcement. The magnitude of
fall in returns ranges from 4% to 234%. Hence, it is not advisable for investors to buy stock after UMA announcement.
ABSTRACT

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234%. Oleh itu, pelabur dinasihati untuk tidak membeli saham atas pengumuman UMA berkenaan.
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# TABLE OF CONTENTS

## CHAPTER ONE INTRODUCTION

1.0 Introduction 1
1.1 Background of Study 5
1.2 Problem Statement 7
1.3 Objective of Study 8
1.3.1 General Objective 8
1.3.2 Specific Objectives 8
1.4 Significance of Study 9
1.5 Organisation of Study 10

## CHAPTER TWO LITERATURE REVIEW

2.0 Introduction 11
2.1 Reviews on other Announcement effect 11
2.2 Theoretical Framework 20
2.2.1 Efficient Market Hypothesis 20
2.2.2 Signalling hypothesis 22
2.3 Testing Procedures 24
2.3.1 Event study 24
2.3.2 Market Model 29
2.4 Empirical Findings 36
2.5 Conclusion 39
### TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER THREE METHODOLOGY</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0 Introduction</td>
<td>45</td>
</tr>
<tr>
<td>3.1 Data</td>
<td>45</td>
</tr>
<tr>
<td>3.2 Conceptual Framework</td>
<td>50</td>
</tr>
<tr>
<td>3.2.1 Market Model</td>
<td>50</td>
</tr>
<tr>
<td>3.3 Research Hypothesis</td>
<td>56</td>
</tr>
<tr>
<td>3.4 Event study methodology</td>
<td>57</td>
</tr>
<tr>
<td>3.5 Conclusion</td>
<td>58</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER FOUR FINDINGS AND DISCUSSIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0 Introduction</td>
<td>59</td>
</tr>
<tr>
<td>4.1 Event Study of effect of UMA announcement towards stock return</td>
<td>59</td>
</tr>
<tr>
<td>4.2 Analysis for individual company with unusual increasing volume and/or price</td>
<td>65</td>
</tr>
<tr>
<td>4.3 Analysis for individual company with unusual decreasing volume and/or price</td>
<td>74</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER FIVE CONCLUSION AND POLICY IMPLICATION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5.0 Introduction</td>
<td>79</td>
</tr>
<tr>
<td>5.1 Summary</td>
<td>79</td>
</tr>
<tr>
<td>5.2 Policy Implications</td>
<td>82</td>
</tr>
<tr>
<td>5.3 Limitations of the Study</td>
<td>83</td>
</tr>
<tr>
<td>5.4 Suggestions for Future Study</td>
<td>83</td>
</tr>
</tbody>
</table>

References                                                | 84|
Appendix                                                   | - 1 - |
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>UMA announcements from 2007-2014</td>
<td>7</td>
</tr>
<tr>
<td>3.1</td>
<td>Illustration of the Event Study Window</td>
<td>57</td>
</tr>
<tr>
<td>4.1</td>
<td>Graph of AAR against Trading Day</td>
<td>60</td>
</tr>
<tr>
<td>4.2</td>
<td>Graph of CAAR against Trading Day</td>
<td>61</td>
</tr>
<tr>
<td>4.3</td>
<td>Companies with lower CAR at day 30 after announcement of unusual increasing</td>
<td>67-69</td>
</tr>
<tr>
<td></td>
<td>volume and/or price</td>
<td></td>
</tr>
<tr>
<td>4.4</td>
<td>CAR of Green Ocean Corporation Berhad (GOCEAN, 0074)</td>
<td>70</td>
</tr>
<tr>
<td>4.5</td>
<td>Companies with higher CAR at day 30 after announcement of unusual increasing</td>
<td>72-74</td>
</tr>
<tr>
<td></td>
<td>volume and/or price</td>
<td></td>
</tr>
<tr>
<td>4.6</td>
<td>Companies with lower CAR at day 30 after announcement of unusual drop in</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>price and/or volume</td>
<td></td>
</tr>
<tr>
<td>4.7</td>
<td>Companies with higher CAR at day 30 after announcement of unusual drop in</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>price and/or volume</td>
<td></td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 2.1 Summary of Literature Review 40-44
Table 3.1 Companies with their Unusual Market Activity Announcement in ACE market 47-49
Table 4.1 AARs and CAARs with their Respective t-values 63-64
Table 4.2 Stock details for companies with a lower CAR at day 30 after announcement of unusual increasing volume and/or price (Appendix Figure 6.1, 42 companies) 66-67
Table 4.3 Stock details for companies with a higher CAR at day 30 after announcement of unusual increasing volume and/or price (Appendix Figure 6.2, 10 companies) 71
Table 4.4 Stock details for companies with a lower CAR at day 30 after announcement of unusual drop in price and/or volume (Appendix Figure 6.3, 7 companies) 75
Table 4.5 Stock details for companies with a higher CAR at day 30 after announcement of unusual drop in price and/or volume (Appendix Figure 6.4, 3 companies) 77
Table 5.1 AARs and CAARs with their Respective t-values 81
CHAPTER ONE
INTRODUCTION

1.0 Introduction

Stock market in Malaysia is currently considered one of the best markets in emerging countries after several years of good performance. However, the announcements of Unusual Market Activities (UMA) from Bursa Malaysia are increasing throughout the years, with 50 cases reported in 2014. These could be led from young law infrastructure, weak enforcement and lack of corporate governance. The purpose of issuing UMA announcement on the stock is to remind the investors to be aware and cautious so that stock price and trading volume in the exchange become stable (Yanuarti & Mulyono, 2012). It is believed that UMA or market manipulations would bring a significant obstruction to the development of stock market. Thereby, it draws the attention of the investors to the announcement.

The market activity of a company's stock should be closely observed at a time when consideration is being given to substantial corporate matters. A clear and explicit announcement is obviously needed given that rumours or UMA stipulate that information on impending developments has leaked out. If it is a false or inaccurate rumour, it should be promptly denied or clarified. A statement to the effect that the company knows of no corporate developments to account for the unusual market
activity can have a salutary effect. Besides, management should check prior to any public comment to avoid any misunderstanding or potential embarrassment in such a public statement. Frank statement should be made on immediate basis and openly if rumours are correct or there are any developments. Such statements are necessary regardless of the business inconvenience or the matter may not as yet have been presented to the company's Board of Directors for consideration.

UMA is announced by the regulator, Bursa Malaysia, when Bursa Malaysia suspects unusual movements in the listed stocks. However, it is not necessary showing the violence of the capital market. Instead, it signals a high probability that the stocks announced are being manipulated. Hence, UMA announcement brings a similar definition and acts as a proxy for market manipulation. Huang, Chen and Cheng (n.d) asserted that manipulation can be happened in a many ways, from insiders taking actions that stimulus stock price to the proclamation of incorrect news or rumours in the internet. Therefore, study of insider trading is also considered to be a benchmark for this study due to very limited studies on unusual market activity announcement.

Furthermore, if unusual market activity query cannot be explained by the company, it might lead to market misconduct. Bursa Malaysia prescribes market misconduct involves activities such as short selling, front running, false trading, stock market manipulation, insider trading and bucketing.
The possibility that the markets can be manipulated is an imperative issue for both the efficiency of the market and the regulation of trading. Particularly securities in many Asian stock markets are thinly traded and thus they are more vulnerable to manipulation. This is because legal enforcement is weak, manipulation is still rampant in many emerging markets (Huang, Chen & Cheng, n.d). Nevertheless, it is found that more than 100 cases of price manipulation in the 1990s, even in the relatively well-regulated U.S. market (Aggarwal & Wu, 2004).

Manipulation of stock is illegal and it is impermissible under the regulations of the Securities and Exchange Commission (SEC). It is vital for investors to be aware of the dangers and to learn how to protect themselves. Investors could be more susceptible in manipulation cases right after prominent bankruptcies such as Enron in 2001 or Nortel in 2009. Aggarwal and Wu (2006) mentioned that manipulation could exist in many ways such as insiders’ actions that influence stock prices and the spreading of rumours or false information in internet and daily chats.

Stock manipulation of false news was spread out, causing investors to sell or buy based on inaccurate information, through local cafes or man by man in the old era. The manipulators then traded in the opposite direction to gain profit. Now, with the advancement of internet creation, false news could spread faster and wider using internet message board and other social media. The efficiency of internet with faster and wider spread of false news hence brings a larger effect to the investors (Leinweber & Madhavan, 2001).
ACE market is chosen in this study because it involves smaller capital stocks, which increases chances of manipulation (Hanafi, 2010). Besides, Zhao (2014) stated that “pump-and-dump” scheme where the stock price, trading volume and price volatility surges significantly, often happen for small-cap stocks because of its low selling and buying interest and short sale constraints.


However, very limited researches have been discussed on the announcement of unusual market activity. Only Hanafi (2010) and Yanuarti and Mulyono (2012) examined on the effect of UMA announcement in Indonesia. It is also a growing concern on many emerging capital markets. Hence, this study is motivated by the importance of market efficiency on unusual market activity and scarce literatures available in this particular
issue in Malaysia. Furthermore, this study intends to contribute by extending the compass of prior and limited studies to investigate the impact of the announcement of the UMA to the underlying stock in Malaysian ACE market. Results are believed to be beneficial to researchers, investors and market regulators.

1.1 Background of Study

Bursa Malaysia (2015) stated that Unusual Market Activities (UMA) refers to any abnormal trading activities which involve substantial price change, and/or volume movement, arising from the trading of an individual stock or its derivatives during any market session. Listed companies are obligated to provide an immediate announcement to clarify the above scenario pursuant to the Bursa Malaysia Listing Requirements.

UMA is announced by the regulator, Bursa Malaysia when there is a detection of unusual movement of price and/or trading volume of stock. It is one of the indications of leakage of undisclosed material information. In such instances, the regulator will issue a written UMA query to the listed issuer concerned to find out the cause. At the same time, it will be published in the website of Bursa Malaysia. Thereafter, it is explained in the statement regarding when and how does unusual market activity query started and it requires the involved companies to explain for the query (Bursa Malaysia, 2015)

When there is unusual trading activity announced, the listed issuer is assumed to carry out due enquiry with the related persons such as its directors, major shareholders and
related persons with the affairs of the listed issuer, to find out the cause. Besides, the listed issuer is also expected to issue a clarifying announcement. This should be undertaken regardless of whether a written UMA query is issued by Bursa Securities.

In addition, the listed issuer should certify that the enquiry or information collecting process is carried out proficiently and immediately release the announcement. The listed issuer should avoid making a normal statement in its clarifying announcement or just respond to the UMA query such as “we have nothing to disclose” or “we have no idea on what that may linked to the unusual market activity”, simply for convenience without undertaking the necessary due diligence. For instance, UMA could be aroused by the result of a proposal that the listed issuer is working on, this must be disclosed.

If the query of UMA cannot be explained by any recent announcement or corporate activity, it may imply that trading by investors who are acting on market rumours or unpublished information. If this is left abandoned, this may mislead uninformed investors, who may think that the sudden change in stock price and trading volume in the listed issuer’s securities signify a corresponding change in its business.

The first announcement released in Bursa Malaysia was in 23 July 2007, on the company ASIAEP BERHAD due to sharp decrease in price in the Company’s securities on this particular day. UMA does not necessarily to be announced on that particular day, it is also including yesterday or recent days around the announcement.
1.2 Problem Statement

The study of UMA is pivotal for several reasons. There is an on-going debate on whether market misconduct such as price manipulation, insider trading can be used to gain profit. Arbitrageurs will quickly take advantage of any mispricing if the market is efficient, moving prices into equilibrium conditions. As a result, UMA announcement is a potential detection and it gives a hint to investors to be alerted with the particular stock on the unusual movement.

The study of announcement effect always had been an attention to academics. However, no study on UMA announcement is detected in Malaysia. The increasing trend of UMA announcement catches the intention of study. As shown in Figure 1.1, UMA announcements rise from 9 cases in 2007 to 50 cases in 2014.

Figure 1.1: UMA announcements from 2007-2014

Source: Bursa Malaysia
In Malaysia, where the economy is emerging, there is very limited information and a
diverse substantiation over the matter, in which the impact of UMA announcement over
stock return is encouraged to be examined. It is unknown as of whether there is any
profitable finding opportunity for investors after UMA announcement. Therefore, it is
interesting to find out the impact of UMA announcement to the underlying stock return
in Malaysia. In this respect, research question dealing with the study of UMA’s
announcement impact is listed below:

i. Does the announcement of unusual market activity affect the underlying stock
   return in Malaysia?

ii. Is there any profitable finding opportunity for investors after UMA
    announcement?

1.3 Objective of Study

1.3.1 General Objective

The purpose of the study is to investigate the effect of the announcement of unusual
market activity to companies listed in ACE market in Bursa Malaysia.

1.3.2 Specific Objectives

a) To investigate the adjustment of stock return before and after the announcement.

b) To identify the increased stock return on day 30 after the announcement.

c) To identify the decreased stock return on day 30 after the announcement.
1.4 Significance of Study

Practically, this research is expected to provide the information for Capital Market Authority on how UMA announcement is delivered to investors. This study also aims to offer noteworthy contribution to the policy market on the insight and understanding of the characteristic of stocks involved in UMA announcement, in order to design more effective market surveillance (Cumming & Johan, 2007). Given that the market is efficient, foreign investors will then have more confidence by investing in the market.

This study aims to deliver to investors an understanding of the behaviour of underlying stock return surrounding the event dates of UMA announcement. Preference question depends largely on how the quality of the underlying stock return is affected by the announcement of UMA. Therefore, the results of this study can help investors as a guideline so that they can make informed decisions to better understand the transactions. It will become one of the considerations to buy, sell or hold the stocks after the announcement of UMA.

Moreover, this study serves as a reference to the shareholders as well as assists the related companies to better understand the significance impact when their stocks are involved in UMA announcement. Additionally, this study also benefits to practitioners and academicians.
1.5 Organisation of Study

This study aims to provide a clear and better understanding on the announcement effect of UMA to its underlying stock return in ACE market in Malaysia. This study is divided into five chapters. Chapter One introduces Malaysian unusual market activity and the objectives of this study. Chapter Two reviews related literature. Chapter Three explains the methodologies used in this study. Chapter Four shows the empirical results and discusses the announcement of Unusual Market Activity on ACE market. Chapter Five offers the conclusion and recommendation based on the findings obtained from this study.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

The purpose of this study is to identify the reaction of stock return to announcement of Unusual Market Activity (UMA) in Malaysia. This section contains a review of the theoretical frameworks, testing procedures and empirical findings related to unusual market activity and market manipulation. Section 2.1 consists of reviews of other announcement effect. Section 2.2 contains the theoretical frameworks available in the literature. Section 2.3 discusses the testing procedures adopted in previous researches. Section 2.4 reviews the empirical findings and section 2.5 concludes this chapter.

2.1 Reviews on other Announcement effect

Financial economists have conducted many studies to examine the reaction of stock markets when announcement of security offerings are introduced. A few examples of announcements are reviewed, which include corporate crime announcement, capital expenditure announcement, going private announcement, dividend announcement.
2.1.1 Corporate Crime Announcement

Corporate crime was engage mainly for the firm’s benefits (Szwajikowski, 1985). Besides, Baucus and Baucus (1997) found that illegitimate corporate activities also involve unlawful events devoted a firm’s members. Apart from that, corporate crime is treated as in the creation given one attempts to intentionally design, cheat or scam with the aim of to take away rights or property of others, irrespective of whether the committer receive any advantage or not from the progression. Besides, Voon, Puah and Entebang (2008) pointed out that corporate crime as crimes that implicate defraud actions such as false statement submissions to Securities Commission (SC) of Bursa Malaysia, abuse of one’s power to acquire individual profit, criminal breach of trust, manipulation of market and any inattention in complying with SC.

PricewaterhouseCoopers (2005) and KPMG (2001) discovered that most of the incidents of fraud were devoted by the personnel of the convicted organisations. Based on their findings, it is found that the most losses included secret commission (43%), expense account (29%), wrong invoicing (27%) and others involved personal use purchases, price fixing, cheque forgery, fraud of automatic teller machine and corporate surveillance. Normally corporate crime has been connected with top management team members but statistics presented that 78% of the frauds were conducted by non-management category. Thus, it is claimed that employees have a tendency to better understand the business’ operation and hence non-management employees become the main culprits for crime committing in an organisation.