

CHAPTER 5

CONCLUSION AND IMPLICATION

According to portfolio formation method, it shows that the methods to calculate excess return and forming portfolio are sensitive to the results. Different methods give the different results and sometimes the opposite. Using the portfolio formation method, it cannot be determined whether there is the size or information effect or not because of inconclusive results. The results from I/B/E/S Database tend to support the small-firm effect where the smaller firms earn higher return than the larger ones. On the Foreign Board, the information effect, where the higher number of analyst is, the lower the abnormal return should be, is quite strong. The January effect is also shown on the Foreign Board and on the Main Board with MIS database. On the Main Board, using ordinary least square method, there exists the incomplete information effect on common stock return. However, the sign is not as expected. This may be because it takes time for common stock return to reflect the information released into the market. The proxy used for the investor base which is number of analysts from I/B/E/S Database may also have the effect on the result. Most of the brokers in the database are foreign ones. There is evidence that foreign investors bring information into the Thai Stock Market. It is assumed that foreign brokers provide information to their local and foreign customers. Even though, those investors make the benefit out of the information they receive, yet because the proportion of foreign investors is still lower than the local ones and only small number of investors can get access to the information provided by the foreign brokers, there is still room left for the other investors to gain abnormal return by following these investors. However, on

the Foreign Board, the incomplete information is not significant. Only investors who know the information will trade on those securities. It is reasonable to think that all the investor on the Foreign Board know the information; therefore q_k in Merton (1987)'s model is equal to one, and the cost of incomplete information is then eliminated. It is significantly shown that on the Main Board, the systematic risk, the firm size and the incomplete information cause the return to be higher than what CAPM shows. Though different models provide different results, it is shown that at least one variable other than the systematic risk has the effect on the return. Applying the Capital Asset Pricing Model for Thai data should be done with care. Finally, using two-stage least square regression, size and number of analysts have the effect on the return. On the contrary, return does not affect the number of analysts. This may be because the number of sample size is quite small. The information effect is quite robust in all the databases used. The result, however, is opposite to what is expected from the Model that is it turns to be positive.

The implication of the study is that besides the systematic risk stated in CAPM, the firm size, and the incomplete information, price to book value of equity also have the effect on the expected return. The higher the systematic risk is, the higher the abnormal return results. This is consistent with the previous studies (Fama and Macbeth (1973), and others). The expected return is also affected by the firm size effect. With the smaller size of the firm, the higher abnormal returns appear. The result is also consistent with the studies done by Banz (1981), Reinganum (1981), and others. However, the information effect that exists has the opposite sign to the previous studies (Merton (1987), Arbel (1985), and others). According to Merton

(1987), investors who trade are the ones who know the information about the stocks, and once they trade, the information should be reflected in the stock price; therefore, the bigger the investor base, the lower the abnormal return should be left. In this study, the bigger the investor base, the higher the abnormal return results. This may be because it takes some time for the information to be absorbed in the stock price, and because of the limitation on the sample size.

This study uses the number of analysts following the firms from I/B/E/S as the proxy for the investor base in the incomplete information model. I/B/E/S has started collecting data on Thai stocks since 1987. It may still be in infancy stage, and also most of the brokers are foreign ones, this may not really reflect the real investor base in the Thai Stock Market. It is therefore suggested for further study that data on Thai brokers or analysts should be employed to test the model.

Moyer, Chatfield, and Sisneros (1989, p. 503) mention that 'there is a growing body of research showing financial analysts' forecasts of earnings have informational content and are used by investors. Also there are many evidences indicating that stock prices reflect analysts' growth forecasts better than historical measures of growth.' This indicates that analyst is one of the important factors in the capital market. In Thailand so far, only one study concerning the analyst is found which is Khanthavit, A. (1998), therefore the study on this topic is still needed.