RESEARCH ARTICLE

To Study the Reaction of the Investors in Trading Behaviour in Bursa Malaysia Based on KLSE Market Index Performance

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Abstract

The investor's behaviour had always raised eyebrows on the behaviour towards the trading activities within the stock market exchange. As the major secondary market of the trading activities of the stock investments, it is understood that it is importance to understand the behaviour of the investors as higher trading activities in the stock market exchange will promote better stability of the stock market. The study is aimed to explore the potential reach of the investors in trading behaviour in Bursa Malaysia with reference to the performance of the KLSE market index. The previous study had suggested that the better stock market performance will provide the investors with higher confidence in the stock performance which will motivate the higher trading volume in the market. With this, the methodology of the quantitative research had studied the historical data for the past 20 years to understand the behaviour and pattern between the movement of the KLSE market index growth against the trading volume growth within the Bursa Malaysia. The outcome of the study provides ethe evidence that suggest there is no relevance of the correlation observed between the KLSE market index growth and the trading volume growth as well as there is no significant relationship detected between the two variables. This had been a significant contribution based on the outcome of the study which put forward further suggestion on the future research area for the benefits of academic.

Keywords: market index; trading volume; KLSE market index; investor's behavioural

Introduction

Within the field of investment finance, the research had concentrated mostly on the patterns of behavior of individual investors. Investment finance focuses on the patterns of behavior that shape an individual's approach to the strategic use of capital. There has been a strong correlation between economic growth and stock market performance; when the economy is doing well, stock prices tend to rise, and vice versa. To back up this claim, consider that investors benefit from a positive feedback loop consisting of a rise in investment growth and a rise in economic prosperity (Iqbal & Riaz, 2015). As a result of investors' increased confidence in the stock market's future success, the stock market as a whole has been experiencing increased trading activity (He et al., 2020).

A good illustration of the damage that can be done to investor confidence is the Great Depression-era stock market crash of 2008, which occurred after investors had lost a lot of money as a result of the Great Recession (Sheta, Ahmed & Faris, 2015). This proved that investors' faith in the stock market was being impacted by the state of the economy. Because of the belief that a recession will lead to a drop in stock market performance, investor sentiment and

behavior tend to adopt a more cautious tack during this time (Batrinca, Hesse & Treleaven, 2018). Due to the high level of uncertainty, which can result in a high level of exposure to potential loss, investors are typically advised to decrease their desire to invest in the stock market. The result is a decrease in the investor's risk tolerance and an increase in their comfort level with engaging in high-volume trading in an effort to mitigate portfolio volatility (He et al., 2020).

This was fundamental for research into the financial markets, where supply and demand for secondary investments sometimes serve as a key impetus behind the kind of trading that boosts a stock's value on the stock exchange (Chiah & Zhong, 2020). This is due to the fact that stocks with a lot of trading volume often receive a boost that helps them attain their full potential. That is to say, an increase in the amount of stock market transactions will lead to an increase in the synergy between economic growth and stock market performance (Choi, 2019). This study was inspired by the need for more in-depth research on the validity of the relationship between trading volume and the movement of stock prices within a stock market, as well as by the fact that there is currently a dearth of such evidence to support this investment concept. In order to determine the importance of this research's aims, it will make use of the

market index maintained by the Kuala Lumpur Stock Exchange (KLSE).

Literature Review

The concept of rational expectations theory is shown through an example in which a change in the environment prompts a forecast of future changes in macroeconomics and investment growth potential (Widyarti, Wahyudi & Hersugondo, 2021). The risk-averse investors tend to display their conservative side in decision making in investment choice, leading to the expectations drawn on the investors to avoid risky investment in risk times, which may be studied in close relation to the rational expectations theory. It is hypothesized in the current study that investors will become more risk-averse and cut back on their stock market trading activity if the market has recently seen poor performance. This theory is in line with previous research on investors' reactions to market shifts (Batrinca, Hesse & Treleaven, 2018). This would mean that investors' decisions about whether or not to put money into the stock market would be driven by the ups and downs of the market index and the performance of individual stocks. When the stock market as a whole performs better, investors will have more faith in the further rise of stock prices, which should translate to more trading and investing activity on their part (He et al., 2020).

According to Choi (2019), market indices have "been the indicated for economists and financial experts to reference to in order to comprehend the pattern and performance of the stock market over a given period of time." Business value and performance typically follow the economic situation in a country, therefore boom and recession in the economy will become the reason for the rise and fall in the stock market, as emphasized by Tapa & Hussin (2016). For instance, the recent Covid-19 had observed the major fall in the economy recording one of the words recessions in the history where the negative impact was highly felt in the stock market in many countries where the stock market observe the sharp fall in the market indices indicating a significant pitfall for the stock performance in the stock market (Chiah & Zhong, 2020). As a result, investors are likely to pull back from a variety of stock market investments in an effort to limit their exposure to the danger of losing their initial capital.

Souza, Barbedo, and Araujo (2018) pointed out that investors' stock market trading behavior can be inferred from the volume of trades, with investors more likely to participate in the market if its present expansion sends a strong positive signal to them. In making investment decisions, investors increasingly look to market indices for direction and reference; a rising market index gives the appearance that the stock market is growing, drawing in more investors to the secondary market. According to Al-Ajmi (2017), rising stock market activity is a sign that investors are optimistic about the prospects for future

growth and returns on their stock holdings. Investors are subject to the whims of the stock market's indices, which rise and fall as a signal to buy or sell in the present market (Iqbal & Riaz, 2015).

There are evidences supplied from past findings that point to the potential of a strong relationship between the market index and the amount of trading in the stock market, which can be found by referencing the prior study. The following hypotheses were generated to highlight the anticipated findings for the current investigation; they will be put to the test in the study's findings and conclusions.

H0:   There is no positive relationship between the market index performance against the trading behaviour for the investors.

H1:   There is positive relationship between the market index performance against the trading behaviour for the investors.

Methodology

Adopting a quantitative study approach, with quantitative analysis centered on the observation of data input of numerical data acting as the unit of study, is at the heart of this investigation's methodology. In the field of economics and finance, where numerical measurement is typically used to enter data, quantitative studies are frequently conducted since such analyses are more suited to examining the data for patterns and trends that may indicate the presence of a substantial effect (Apuke, 2017). When it comes to making conclusions, the quantitative method of analysis is defined as providing more objective findings that will serve as actual evidence for the study, leaving no room for question or scenarios under which the research could be rejected by other opinions (Sharela, 2016). The current study will use a deductive reasoning technique, where the results will be used as a benchmark for testing hypotheses in order to determine the study's outcome using hypotheses derived from the study's findings (Cooper & Schindler, 2014). This research will be the first to use a longitudinal methodology, as it was produced using data input based on a timeframe stretching from 2001 to 2022 and is intended to shed light on the general pattern and trend observed both during prosperous and less prosperous economic times (Apuke, 2017).

The historical data for the market index of the Kuala Lumpur Stock Exchange (KLSE) will be obtained from the secondary data market, where the data had been collected from the publically available source in the web platform like Yahoo Finance. The financial crisis of 2008 and the current Covid-19 issue will both be accounted for in the extracted data, which will be based on a monthly basis with reference to the chronology from 2001 to 2022. The considerable and high activity in the stock market among global market indices were undoubtedly a driving factor in making the

decision to focus on the Malaysian stock market as the preferred option for the target audience.

To continue the quantitative investigation, SPSS will be used as the primary instrument for producing the statistical output required for the quantitative analysis. The statistical series will serve as the empirical proof that demonstrates the study's results and draws conclusions about the study's goals (Saunders, Lewis & Thornhill, 2015). Prior to evaluating the correlation analysis and the regression analysis that will be used to assess the study's hypotheses, the reliability test will serve as a standard to ensure the consistency and validity of the market data input (Sekaran & Bougie, 2016). This study will then go on to describe the study's findings in further detail, taking into account the anticipated result based on the aforementioned literature review.

Data Analysis

Table 1: Summary of Analysis (NYSE Against Vol_NYSE)

	KLSE Growth	Trading Volume Growth
KLSE Growth		0.001797885
Trading Volume Growth	0.001797885	

The Table 1 had demonstrated the result for the correlation analysis between the KLSE growth and the trading volume growth in the stock market exchange. The correlation analysis had provided the result where the Pearson Correlation Coefficient had been extremely low recording at 0.001797885 which is almost near to zero indicating that there is no significant correlation detected between the two variables. The lack of suggestion on the strength of the positive correlation through the Pearson Correlation Coefficient lead to the interpretation that there is no correlation exist between the KLSE growth and the trading volume growth.

Table 2: Summary of Analysis (NASQAD Against Vol_NASQAD)

	Coefficients	Standard Error	t Stat	P-value
Intercept	0.0039	0.0024	1.6113	0.1085
Trading Volume Growth	0.0002	0.0081	0.0270	0.9785

The Table 2 had been testing for the regression analysis for the study where the KLSE market index growth will be set as the independent variable against the trading volume growth in the stock market exchange in KLSE. The result for the regression model had observed that the relationship of the two variables where the p-value as reference to Table 2 had recorded at 0.9785 which is way higher than the tolerance level of 0.05. With this, there is sufficient evidence to suggest the lack of presence of the significant relationship between the KLSE market index growth and the trading volume growth indicating that the increase or decrease in the trading volume in the stock market will not be influenced by the fact of the movement observed in the KLSE market

index. This would translate the meaning where the investors' behaviour on the trading volume will be on its own independent which is not determine by the favourable and unfavourable of he KLSE market index performance.

Based on the outcome in the findings and results of the current study, the empirical evidence had indicated that there is no relevance correlation being detected between the two variables where both the KLSE market index growth and trading volume growth shared no relevance correlation between the movement of the two variables. In addition, the regression analysis had provided the extended evidence indicating that there is no suggestion of the significant relationship presence between the KLSE market index growth and trading volume growth. This had been reflected on the opposite findings as derived from the previous study where the outcome had showed the disagreement against the initial hypothesis as drawn in H1 as developed from the literature review of the research. With this, the alternate hypothesis for the H1 will be rejected where the null hypothesis in H0 will be accepted for this research.

H0:   There is no positive relationship between the market index performance against the trading behaviour for the investors.

H1:   There is positive relationship between the market index performance against the trading behaviour for the investors.

The outcome of the study had certainly come out a bit unexpected from the reference with the previous study where the expected findings failed to find the agreement and alignment with the empirical evidence achieved from this current study. The initial understanding drawn from the similar study had provide the suggestion that the performance of the market index will provide the confidence towards the investment opportunity where the increase in confidence within the investors will create the likelihood for higher trading activities within the stock market exchange. This is because that the growth of the market index in stock market exchange will provide the positive signal to the investors to become more optimistic for the investment return. With this, the trading activities will observe the higher volume of trading in the stock market as a result from the positive expectations from the investors. However, the current outcome of the study had observed no positive correlation which disagree from the initial study from the previous research expectations. This could be contributed by the fact where the stock market performance will not affect the investor's behaviour in the trading behaviour. The other factors like the risk tolerance and economic condition could become the alternative factors that could appear to be more significant to influence the trading volume for the investors. Besides, the outcome of the research had suggested no significant relationship between the KLSE market index growth against the trading volume growth in Bursa

Malaysia. This showed totally no relevance for the two variables to come in influence which indicate that the confidence of the investors does not lie on the market index performance. The investors may likely to assess the potential return of the investment based on the individual stocks rather than the whole stock market performance as a whole. Therefore, the outcome of this study had achieved the empirical evidence to show no positive relationship presence in the KLSE market index growth against the trading volume growth.

Conclusion

The outcome of this research was to present the significant in the study where the study provided the perspective of the new knowledge being developed within the area of study for the behavioral investment. The findings have been supplying new insight for the academic study, reflecting the advancement in the field of study for current and future scholars to refer to on the current findings. Furthermore, the current study's findings and results create doors for the area of study to further examine potential areas of expertise that are directed from the current findings and results of the study producing new prospects for the world of academic research. Furthermore, the study's key findings will be a fantastic reference for investors to comprehend the present norm of investor behavior to understand the anticipated action of investors based on the success of the market index. This will allow investors to refer to the study to determine the next step in their investment plan and decision-making in order to avoid making unnecessary errors that could damage their potential return on investment.

The current study may not have attained the anticipated outcome in comparison to the prior study, but it does provide a suggestion for a future study to be undertaken within the area of expertise. To begin, the current study had solely focused on the Malaysian market index as the reference of study, but the vast range of stocks in both KLSE market indexes could have an impact on the current conclusions. As a result, future research can replicate the existing methodology to analyze different market indices from different nations, providing new insight as well as validation on the current empirical evidence of this study. Furthermore, the study on investor behavior may not necessarily be reflected in the trading volume or activities of the investors but may be driven by other human characteristics like as risk tolerance, income level, investment experience, and so on. As a result, a future study should investigate using a questionnaire design approach to determine the potential significant difference in their personal traits in influencing the behavior of investors toward market investment prospects.

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