



DIVERSIFICATION BENEFITS AMONG ASEAN STOCK MARKETS; USING PORTFOLIO SELECTION WITH SKEWNESS

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ABSTRACT

At the present, the easiest way for investors in ASEAN countries to invest in ASEAN members' equity markets is to invest in foreign investment funds. However, due to the coming ASEAN equity market liberalization in 2015, investors can invest more easily and inexpensively in individual stocks listed in each market through ASEAN Link. As a result, investors have more diversifying investment choices. Therefore, this paper, based on diversification perspective, attempts to study and illustrate the difference of investment allocation when (1) investors in each ASEAN members can only invest in country index funds and (2) when investing in individual stocks is possible. As it is found that the returns of most assets are skew and not normal distributed, this paper incorporates skewness in the optimization by employing the Polynomial Goal Programming ("PGP"). Since this paper also found that there is a parameter instability problem in correlation structure, unlike the previous papers which report the estimated results only once, the rolling window method is used to mitigate the problem and the actual returns are presented. Our results are seemed convincing that there will be a benefit to the ASEAN investors and numbers of cross-broader investment are expected to occur. Stocks of Malaysian market are perceived as a good investment choice for Sharpe-ratio-concerning investors, while Stocks of Indonesian market are for Skewness-coefficient-concerning investors.

Key word: International Portfolio Diversification; Polynomial goal programming; Skewness; Emerging markets; ASEAN countries;