CHAPTER 5

CONCLUSION

5.1 Conclusion

In this research, we compare standard errors (S.E.) between the ordinary least squares (OLS) method and the Bayesian approach on the relationship among an 8-industry group index (Agro-industry and Food-industry, Consumer Products, Finance, Manufacture, Property and Construction, Resources, Services and Technology) and the Thai SET index. The analysis seeks the relationship among each industry group and assets index total up of Thailand (Thai index).

The result of this study shows that the excess rate of return of 8-industry indexes and the market are less than zero and the distribution found that it is not normal distribution. Moreover, the excess rate of return of 8-industry indexes and the change of excess rate of return of the market changes correlatively. From the stationary test, the change of the excess rate of return of 8-industry indexes is stationary when the integrated order equal zero I(0).

The result shows that the standard error from Bayesian approach is lower than Ordinary Least Square, which means, if the investor wants to invest on asset group index. Therefore, the Bayesian approach is more efficient than Ordinary Least Square approach. When the investor finds out the risk and return from beta (β) coefficient but in the other word standard error of Ordinary Least Square method is lower than Bayesian approach.

In conclusion, the finding risk and return from estimation indicates that Bayesian-method forecast is more accurate than OLS method which is relevant to purpose.

5.2 Suggestion for investor

The greatest advantage of Capital asset pricing model is the idea that risk-return relation of every portfolio can be optimized to attain the lowest risk for a specific level of return. Many investors can follow CAPM in order to invest in low-cost index funds rather than on stocks. CAPM is said to be a diversification of portfolio.

The capital asset pricing model was originally developed to explain how the returns earned on shares are dependent on their risk characteristics. However, the greatest potential use in the financial management of a company is in the setting of minimum required returns (i.e. risk- adjusted discount rates) for new capital investment projects.

The great advantage of using the CAPM for project appraisal is that it clearly shows that the discount rate should be related to the project's risk. It is not proper to assume that the firm's present cost of capital can be used if the new project has different risk characteristics from the firm's existing operations. After all, the cost of capital is easy to get a return which investors require on their money given the company's present level of risk, and this will go up if risk increases.

Application advantages from this research indicates the Bayesian approach method has effectively decisions least standard error from beta (β) value to guide investors who are interested in the investment in Thailand and define least standard error from beta (β) value to be an alternative for investors to use as a new instrument for decision making.

5.3 Suggestion for researcher

This study examines the conditions defined by Capital Asset Pricing Model (CAPM) only by using the instrumental variables approach which evaluates the value with Bayesian Approach related to the Ordinary Least Square (OLS). Therefore, other testing method should be employed. Such methods are Generalized Method of Moment (GMM) and variable surplus added to determine the relationship among asset group indexes and the affect of other variable among them due to the appropriate and obvious reasons for deny the model. In fact, there are rarely instruments to analyze the CAPM. Furthermore, some of them are very tortuous, such as Bayesian Approach which we cannot know the appropriate burn-in value and iteration that yield the best result. So, the methods that have minimum conditions and minimum restriction should be taken place.