Abstract

This study examines empirically the "firm size" effect in the Hong Kong Stock Market. The finding is that the "firm size" effect in the form of a linear relation does not exist since there is no clear linear inverse relationship between size and return in the Hong Kong Stock Market over the period studied. However, the smallest size quintile of the selected sample does yield a higher return than the others. Moreover, its risk level, which is measured by the OLS beta, is also the smallest one. Thus, an abnormal return does exist in that particular group. After dividing the smallest size group into 3 subgroups based on the frequency of non-trading of the shares of those firms, the highest frequency of non-trading subgroup firms do not seem to perform consistently better than the firms in the other two subgroups. Therefore, the variable, "Frequency of non-trading" or "Infrequent Trading", cannot explain why the smallest size group has a better performance than the others. However, infrequent trading and size are highly correlated and the relationship between return and Infrequent Trading is even stronger than that of size as the size of the firm gets smaller and smaller. These findings can lead to further studies in the search for an explanation of the "firm size" effect.