CHRISTMAS EFFECT ON GLOBAL STOCK MARKETS

MUHD ISYAH NA'IM ABDUL KARIM

2015298344

BACHELOR OF BUSINESS ADMINISTRATION

WITH HONOURS (FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

KOTA KINABALU, SABAH

JUNE 2017

CHAPTER 1

INTRODUCTION

1.1 Introduction

Christmas holiday effect is an important holiday events impacting the behaviour or investors, asset prices, and financial market behaviours globally. Christmas event which is celebrated on every 25th December of the year is the number one religious holidays celebrated with a great enthusiasm by the Christian community around the globe. The significant important of this holidays is supported with the fact that Christmas holiday is one of the most celebrated religious holiday in the world by largest population of Christian community located in various geographical continents.

In finance, Christmas holiday has been associated with Santa Clause rally in financial markets. The irregularity of stock market behaviours surrounding this holiday has been well documented in financial literature. Most importantly, practitioners have been capitalising this holiday in their trading strategies to predict the movements of stock market as well as in their portfolio management strategies. These strategies have been proven to be profitable since 1969 as noted by one of the industry practitioner below.

“According to the 2017 Stock Trader’s Almanac, since 1969 the Santa Claus rally has yielded positive returns in 34 of the past 46 holiday seasons—the last five trading days of the year and the first two trading days after the New Year's. The average cumulative return over these days is 1.4%”

(PNC Wealth Management, 2016)

Since then, holiday's effects on stock markets are one of the popularly investigated event study research in finance. Irregular returns around public holiday are mostly known as the holiday effect and have been thoroughly documented in the U.S and other developed and developing market. The Holiday effect is beneficial to investor or traders as they may buy a security and the sell it at a higher price around public holiday. According to Dodd and Gakhovich (2011) holiday effect is realized when there is an irregular returns earned around holiday. Holiday effect increases the decision making of investor and thus they are able to planned trading strategies that can make them earn higher returns before holiday (Rowjee, 2014).

However, the validity and sustainability of the trading strategies based on religious holidays have been challenged due to inconsistency of research findings reported for different countries. For example, a study done by Wong, Neoh and Thong (1990) documented that pre-Christmas price run-ups are less pronounced in a non-Christian country markets. The same opinion is drawn for Islamic holiday it should have little effect on investor behaviour in most of the western country. Other studies suggesting that other fundamental factors are occurring in December that causes the irregular trading behaviours, not the Christmas effect. For instance, performance of active managers is greater than normal in the months when earnings are typically announced and lower in the months preceding the end of the tax year. In addition, the performance of fund managers is greater than normal in December, possibly due to the effect of portfolio window dressing or the holiday effect coinciding with the turn-of-the-year (Gallagher and Pinnuck, 2006).

In light of the mixed effects of the research evidence, other researchers have highlighted the possible source of heterogeneity of Christmas holidays effect on different contact of stock markets. In this regards, Bley and Saad (2010) argued that the

holiday effect depends not only on the cultural or religion setting of a country market but the cultural or religious background of its market participants.

This research extends the Christmas holidays effect research boundaries by investigating the heterogeneity of Christmas holiday effect in global stock market. In understanding the non-homogeneous effect of Christmas holidays on different stock markets, this research identified the geography, religion, and culture factors as a possible source of heterogeneity. Examination of these research problems will be carried in the theoretical lenses of behavioural finance that could offer new insights to these important finance problems. These papers investigate the Christmas effect on global stock market during a year of 2000 until 2017 by using weekly stock prices indices for 83 major stock exchanges around the world. Wide coverage of the stock market data will strengthen the generalization of the research findings. This research would provide valuable information to investors, fund managers, and policy makers on the effect and consequences of Christmas holiday effects.

1.2 Problem Statement

Since in the 1990, growing evidence of stock market behavior anomalies have been well documented in leading finance journals. These anomalies challenge the validity of theoretical, practical, and policy perspective of finance based on modern finance paradigm. The cost of unclear theory, practice, and policy are impacting negatively the investors, the firms, and the financial markets globally.

Previous studies on the anomalies of efficient markets have provided a collection of empirical proofs that there are certain deviations in the movement of stock prices from what can be expected if the efficient market hypothesis (EMH) holds. A market is efficient when the price reflects all relevant information in the market, under

the assumptions that the investors are rational and have homogenous expectations and that given this equilibrium between price and information, it is impossible for investors to persistently gain abnormal returns (Fama, 1970). In reality, however, some events are able to trigger under and over reactions, causing shifts in stock prices that enable abnormal returns to be earned, indicating market inefficiency and thus a hole in the EMH (Stulz and Williamson, 2003). The occurrence of various events that can trigger abnormal returns during different calendar and timeframe have been popularly investigated by finance researchers and practically influence the investment strategies of professional and non-professional investors.

Collectively, there are two types of calendar anomalies: religious-related holidays anomalies, such as Christmas effect, Good Friday effects, Jewish High Holy Days effects, the Easter week holiday effect, Ramadan effect, Chinese New Year effect and many other major holidays around the world (Cadsby and Ratner, 1992; Frieder and Subrahmanyam, 2004; Pantzalis and Ucar, 2014; Bialkowski, Etebari, and Wisniewski, 2012) and non-religious related, such as the January effect, December effect, Monday effect, Wednesday effect, Friday effect, weekend effect and intraday effect (Schwert, 2003).

This research focus on Christmas holiday effect on stock market behavior that remains theoretically and empirically debated. The main theoretical question is related to unclear theoretical foundation explaining the holiday connections to stock market behavior. In the empirical side, the empirical research findings have been mixed pointing to inconclusive opinions on the effect of Christmas holidays on stock market.

Empirical evidence in this area can be grouped into work related to modern- and behavioral-finance paradigm. In modern finance, since the seminal work of