



CALENDAR EFFECT IN MALAYSIA STOCK MARKET

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ABSTRACT

This paper investigates the existence of the monthly effect in the Malaysia stock market between January 2004 and December 2015. The sample size is 144 and the data was obtained monthly. The data was partitioned into two-time frame which is sub-period basis and full period basis. For sub-period basis, it was partitioned into three sub-periods which is pre-crisis period, crisis period and post-crisis period during the Global Financial Crisis while for full period basis it is partitioned into eleven months which is from January until November and used December as its benchmark. This research has failed to provide the existence of monthly effect in Kuala Lumpur Composite Index for the three sub-periods. However, when the full period was examined, the regression results found that the returns are negative and significant for August during the full period.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

Calendar effect is defined as a collection of assorted theories that assert certain days, months or times of year that are subject to above-average price changes in market index. It is a market anomaly or economic effect in stock returns that appears to be related to the calendar. These effects include the different behaviour of stock markets on different days of the week, different times of the month, and different times of year. It then will represent good or bad times to invest. The theories that fall under calendar effect are Monday effect, January effect and holiday effect. As cited by Pik Har & Wei Chih (2016), according to Brooks and Persaud (2001), they defined calendar effect as tendency of financial asset returns to display systematic patterns at certain times of the day, week, month, year or around market closure.

Calendar effect is an interesting area of research related to stock market returns. A long term period of stock's historical price is needed for this research. Stock historical price can be used to predict future price and has important implication for financial market Anwar & Mulyadi (2009). For the past two decades, the presence of calendar effects has been documented extensively in finance and economic literature Raja et al. (2011).

The most important calendar effects studies are monthly effect or also known as January effect that was first observed in 1983. As cited by Sutheebanjard & Premchaiswadi (2010), Keim (1983) noted that the average risk-adjusted return for a portfolio of small firm stocks is large in January compare to the rest of the year which is much more smaller. The monthly effect occurs when stock market returns are not distributed equally across the months of the year. There is some evidence of monthly effect in Malaysia stock returns. For instance, Silva (2010) cited that a February effect in Malaysia stock returns was found by Ho (1990) while Nassir and Mohamad (1987) and Wong et al. (1990) had documented significantly higher returns in January. As cited by McGowan & Jakob (2010), Rozeff and Kinney (1976) found that in January the returns are higher compared to any other month. Same goes with Lakonishok and Smidt (1988) found that returns are significantly higher around the turn of the year.