

Chapter 5

Summary and Conclusion

5.1 Restatement of Objective of Study

The main objective of this study is to examine empirically the existence of the *day-of-the-week* anomalies from the thirty large capital stocks of the KLSE Main Board and also the Composite Index. By analyzing the mean returns from the thirty selected stocks' adjusted closing prices of each trading day from 2nd January 1992 to 31st December 1995, for which statistical tests like t-Test, Oneway ANOVA test, Tukey test, Bartlett test and Kruskal-Wallis test are carried out, we examine whether there is any significant existence for a general pattern of seasonality and a Monday effect.

5.2 Conclusion on the Existence of *Day-of-the-week* Effect

Only one stock, Guinness, is found to indicate the *day-of-the-week* effect, out of the 30 large capital stocks selected for this study. When Guinness is subjected to the Tukey test for pairs of groups which have means of significant difference, there is a Monday-Friday pair which have means of significant difference. Majority of the stocks selected for this study show the non-existence of the *day-of-the-week* effect. Therefore, we cannot conclude that there exists a *day-of-the-week* effect for large capital stocks in KLSE Main Board.

When similar tests are carried out for the Composite Index, it is interesting to note that the results are quite different. All three periods, that is, the whole period from 2nd

January 1992 to 31st December 1995, the first sub-period from 2nd January 1992 to 31 December 1993 and the second sub-period from 2nd January 1994 to 31st December 1995, exhibit significant *day-of-the-week* effect. The Composite Index also shows the existence of pairs of groups which have means of significant difference. It has significantly different returns between Monday and Wednesday, and between Monday and Friday. Thus, the Composite Index is actually showing the existence of the *day-of-the-week* effect. Hence, large capital stocks do not exhibit *day-of-the-week* effect even though the overall market exhibits such effect.

5.3 Conclusion on Pattern of the Anomaly

The daily mean returns distributions show that 24 out of the 30 stocks analyzed have lowest and negative returns on Monday. When the results are viewed purely on negative returns, the 24 stocks again have negative daily mean returns on both Monday and Tuesday. This represents 80% of the stocks analyzed. Therefore, majority of the thirty stocks analyzed have low and negative returns at the beginning of the week. Out of these 24 stocks, it is found that only 2 of the Monday mean returns are significantly different from the average mean returns of the other days.

On the other hand, 8 of the sample stocks are found to have highest Friday returns, which represent 26% of sample stocks. Of the 8 stocks that show highest Friday returns, only one stock is found to have mean returns that is significantly different from the other days.

Based on the analysis above, we can conclude that the selected 30 large capital stocks on the Main Board for this study do not significantly exhibit low and negative mean returns at the beginning of the week.

As for Composite Index, it has significantly lowest and negative Monday mean returns for the whole period and both the sub-periods. It also shows high and positive mean returns on Friday for all the three periods. It exhibits significantly highest and positive mean returns on Wednesday for the whole period and the first sub-period. This implies that the result for the whole period may be influenced by the first sub-period of which 1993 happened to be the super bull run period for KLSE. It can therefore be concluded that the Composite Index exhibits the general pattern of low and negative Monday returns and high and positive Friday returns which is consistent with the findings of bourses of other countries.

5.4 Possible Explanation of the *Day-of-the-Week* Effect

The main objective of this study is to examine the existence of anomalies in daily stock returns but not the causes. However, there are possible explanations of the causes that were found in other studies. Explanations include :-

- *Trading Volume and Firm Size Effects.*

Generally, trading activity and firm-size are highly correlated (James and Edmister (1983)). Actively traded stocks and small firm-size stocks may have higher fluctuation in stock prices that resulted in differences in daily mean returns. However, the result of this study shows that there does not exist a firm size effects on large capital stocks in KLSE.

- *Settlement Effects.*

In KLSE, the time taken from the date of transaction to the date of payment may be one of the causes for the *day-of-the-week* effect. Stocks that are not deposited into Central Depository System (CDS) take up to 7 days for payment to be settled after a selling transaction. Therefore, an investor who sells stocks on Friday can only receive payment after 11 calendar days while an investor who sells stocks on Monday needs only 9 calendar days to be paid. As a result, the stock that is sold on Friday needs a higher return to compensate for the longer waiting period if compared to the stock that is sold on Monday. However, Jaffe and Westerfield (1985b) in their studies of U.K., Canada and Japan found that settlement procedures cannot explain the *day-of-the-week* effect. The result of this study show that there does not exist any settlement effects on large capital stocks in KLSE even though the Composite Index exhibits such effects.

- *Trading Pattern of Individual and Institutional Investors*

Lakonishok and Maberly (1990) concluded in their study that individual investors tend to sell stocks more than buy stocks on Monday thus causing low Monday returns. However, Sias and Starks (1995) found that securities with substantial institutional holdings exhibit significantly greater turnover seasonality than comparable-sized securities with substantial individual investors holdings. These two findings are conflicting.

- *Measurement Errors.*

Gibsons and Hess (1981) suggested that systematic biases due to measurement error can induce the negative return on Monday. These measurement errors may result from either the use of infrequently traded stocks or the use of outdated quoted prices. However, this suggestion was dismissed by the findings by Keim

and Stambaugh (1984). The result of this study is consistent with the findings of Keim and Stambaugh (1984). There does not exist any measurement error effects for large capital stocks in KLSE even though the overall market may show such effects.

5.5 Implications of Study Findings

The findings about seasonality of the 30 large capital stocks on the KLSE Main Board has shown sign of weak form efficiency of large capital stocks in KLSE Main Board. Except for one stock from the 30 sample stocks that shows the existence of *day-of-the-week* effect, it is not possible to predict the pattern of the stock returns by analyzing past price data. In addition, when the transaction costs are taken into considerations, it is unlikely for an investor to gain any abnormal returns. This implies that fundamental analysis is still one of the better investment strategy compared to past data trend analysis.