

## CHAPTER 5

### SUMMARY AND CONCLUSION

#### 5.1 RESTATEMENT OF STUDY OBJECTIVE

The emphasis of this study is to determine empirically the existence of the month-of-the-year seasonality in the KLSE main board. This includes investigation of the pattern of seasonality to find whether seasonality is found to exist in the Main Board. This was carried out using statistical tests such as the t-tests, Oneway ANOVA test, TUKEY HSD test, Kruskal-Wallis test, Mann-Whitney U test, etc. The study was conducted on thirty two Main Board stocks as well as the Kuala Lumpur Stock Exchange Composite Index, the Dow Jones Industrial Average, the Financial Times Stock Exchange 100 Index , the Hang Seng Index, the Australian All Ordinaries Index and the Nikkei Stock Index.

#### 5.2 *THE EXISTENCE OF THE MONTH-OF-THE-YEAR EFFECT*

The main findings of the study indicated that of the 32 stocks analysed, only 4 of the stocks (KLI, Rothmans, UMW, Pelangi) were found to exhibit a significant month-of-the-year effect. When these 4 stocks were subjected to the TUKEY HSD tests, only 3 stocks (KLI, UMW, Pelangi) have pairs of groups which are significantly different.

The findings of the TUKEY HSD tests indicated that Kuala Lumpur Industries (KLI) has an average April return which is significantly different from its March and August returns while Rothmans (M) Berhad has an average February return which is significantly different from January, March, April, May, August, September, October and December returns. United Motor Works ( UMW ) Berhad has an average June return which is significantly different from the November returns. Since the number of stocks which exhibited the month-of-the-year effect is very much less than 50% of the stocks analysed, one can safely conclude that the KLSE Main Board stocks generally do not exhibit the month-of-the-year effect.

The six indices were subjected to similar tests and the findings indicated that none of them exhibited a strong month-of-the-year effect.

### 5.3 CONCLUSION ON THE PATTERN OF SEASONALITY

From the results of the t-test and the Mann Whitney U test, we can conclude that, in general, individual stocks on the Main Board exhibit a low (and negative) returns on the month of March and a high (and positive) returns on the month of February.

The results based on the t-test and the Mann Whitney U test tend to point to the fact that the existence of the month-of-the-year effect in the indices cannot be globalized. In other words, though the month-of-the-year effect can occur across bourses, they need not necessarily occur on the same month. This finding contravene the findings of Tay (1991), insofar as the January effect is concerned.

## 5.4 EXPLANATION OF THE MONTH-OF-THE-YEAR EFFECT

Possible explanations for the above effect are listed below ( though it is not the focus of this study ) :

### A) SETTLEMENT EFFECT

In the KLSE, an investor is paid only after seven days upon a selling transaction. Ho (1995) explained briefly on how the time lag in the transaction affects the daily seasonality. However, Jaffe and Westerfield (1985) in their studies of the U.K. , Canadian and Japanese bourses found that settlement procedures failed to explain the weekly seasonality. The settlement effect cannot be found from this study. This may be due to the fact that the settlement effect only last seven days which is less than a month, hence, its effect will not be seen.

### B) CAPITAL GAINS TAX EFFECT

In the case of the January effect, studies show that the average returns in the month of January are significantly higher when compared with any other month of the year. This phenomenon in the West had been attributed to actions by investors to negate the impact of year end capital gains tax by selling securities with losses to enjoy tax rebate and differing the sale of securities with delay tax payments to the following year. This action will depress the price of securities at the end of the year and cause an increase in prices in January.

Though this phenomenon also occurs in the Kuala Lumpur Stock Exchange where findings from Annuar and Shamser (1987), Othman Yong (1989) and Tay (1991) indicated the January effect, the explanation of the capital gains tax cannot be applied since Malaysia has no capital gains tax.

### C) CHINESE NEW YEAR EFFECT

The returns on the month of February appears to be relatively high on the average, whilst the returns on the month of March appears to be low. It is a common practice for companies operated by Chinese businessmen to share the profits of the company in the form of bonuses near the Chinese New Year. Based on the Lunar calendar, the Chinese New Year occurs twice as frequent in the month of February as compared to the month of January.

With this additional liquidity, it is highly likely that investors have channeled part of this form of liquidity to the form of securities. This explains the bullish market prices in the month of February. However, the bullish trend cannot last indefinitely, hence creating a higher selling pressure as the prices go up. The expected sale happened in the month of March, therefore pushing down its prices below the year's average.

## 5.5 IMPLICATIONS OF THE STUDY FINDINGS

The findings from this study in the KLSE Main Board do not concur with the findings by Tay (1990) nor by Ho (1996). No January effect was observed, and the

month-of-the-year effect as well as the seasonality effect were found not to be significant; i.e. their existence cannot be generally concluded. Since the possibility to predict accurately the pattern of the stock returns by analysing historical data appears remote, one is able to conclude that the KLSE exhibits a weak form market efficiency. The results of this study, however, tend to agree with the findings by Lee (1995).

## 5.6 LIMITATIONS OF THE STUDIES

Time and resource constraint had contributed to the following limitations ( some of them are inherent ) :

1. The study covers only thirty two stocks. It would be more representative to increase the number of stocks to be studied.
2. The study covers only the monthly returns for twelve years; i.e. from 1984 to 1995. It would be more representative to extend this study to cover at least 20 years.
3. The study covers only large capitalized stocks that formed the KLSE Composite Index. It would be more representative to extend this study to cover other stocks from the Main Board.

## 5.7 RECOMMENDATIONS FOR FUTURE RESEARCH

The study should be extended to cover more counters ( say 50 ) from the Main Board. These counters should preferably be made up of stocks from various

industries and of a differing capitalization. The study should extend to more number of years ( say 20 ) to obtain more data for analysis and interpretation purposes.

It has been observed ( though not tested for correlation ), that the movements of the KLSE Composite Index is correlated to that of the Dow Jones Industrial Average Index. Perhaps a study could be carried out to determine the strength of this correlation.