

ABSTRACT

This empirical research investigates the holiday effect in the Kuala Lumpur Stock Exchange (KLSE) using three daily stock indices: Kuala Lumpur Stock Exchange Composite Index (KLSE CI), Exchange Main Board All-Share Index (KLSE EMI), and Kuala Lumpur Stock Exchange Second Board Index (KLSE SBI) over the period January 1990 to June 2001. The results show abnormally high pre-holiday returns which predominate only on the single trading day immediately prior to holidays and the pre-holiday fraction of positive return is found significantly higher for all three indices. On the other hand, the post-holiday returns are higher than normal trading days but the results are insignificant. In an examination of the individual holiday, significant individual holiday effects are found on pre-New Year's Day, post-Chinese New Year, and post-Kongsi Raya. The KLSE SBI exhibits a peculiar Chinese New Year effect. The results also show that the holiday effect is independent of other calendar anomalies. This study also shows that the patterns of pre-holiday return vary according to the level of economic activity whereby the magnitude of pre-holiday strength is reported largest during expansionary period and virtually disappears during recession period before it is present again during recovery period. Finally, the study shows that large capitalisation stocks tend to display higher pre-holiday returns during expansionary period while small-capitalisation stocks during recovery period.