TIME-OF-THE-MONTH EFFECT IN THE TRADING/SERVICES
SECTOR OF THE KUALA LUMPUR STOCK EXCHANGE

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ABSTRACT

Numerous studies have reported the existence of calendar anomalies in stock returns. In this study, we investigate the calendar anomalies of forty stocks of the trading/services sector in the Kuala Lumpur Stock Exchange (KLSE) over the period of 3 January 1995 to 2 November 2000. The calendar anomalies such as the pre-holiday effect, half-monthly effect, and time-of-the-month effect are examined. The parametric and nonparametric tests are used in this study for testing the existence of calendar anomalies. Nonparametric tests are resorted to when the assumption of normality is not satisfied.

The results of this study indicate that there is no persistent pre-holiday, half-monthly effect and time-of-the-month effect in the Malaysian stock market for the trading/services sector. This is perfectly consistent with the notion of market efficiency. Further analysis is carried out for two subperiods, namely 3 January 1995 to 30 June 1997 and 1 July 1997 to 2 November 2000, in order to test for the persistence and consistence of any calendar anomalies in KLSE. This study reports that the pre-holiday effect is more apparent during the first subperiod of the study. We also notice that the pre-holiday effect is more pronounced among small companies than the large companies in the whole period and first subperiod. In addition, this study shows no obvious relationship between the firm size and the other two effects, namely half-monthly effect and time-of-the-month effect.
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