

CHAPTER 5 CONCLUSION AND DISCUSSION

CONCLUSION AND DISCUSSION

This chapter concludes with a summary of the empirical evidence found in the preceding chapter and a discussion of the implication of the calendar anomalies observed for the Malaysian stock market.

This study was undertaken with the objective of investigating whether the Malaysian stock market is affected by some of the calendar anomalies reviewed in Chapter 2. Specifically, the study examined the possible existence of the pre-holiday effect, half-monthly effect, and time-of-the-month effect over the period 3 January 1995 through 2 November 2000 for forty stocks listed in the trading/services sector of Kuala Lumpur Stock Exchange (KLSE). The data set is also partitioned into two subperiods in order to examine the persistence and consistence of any calendar anomalies. The

first subperiod is from 3 January 1995 to 30 June 1997 and the second subperiod is from 1 July 1997 to 2 November 2000.

Financial economists find that the mean returns on pre-holiday are much higher than the other trading days in the same month, and this phenomenon is known as the pre-holiday effect. We have shown that there appears to be no persistent pre-holiday effect for the whole period. The result remains the same when we controlled for the month-of-the-year effect. The presence of the pre-holiday effect is clearer in the first subperiod compared to the whole period. After controlling for the month-of-the-year effect, the pre-holiday effect found in the first subperiod appears to be much less significant. The results also suggest that the pre-holiday effect is more pronounced among the small companies than the large companies in the whole period and first subperiod. Furthermore, upon examination of the second subperiod, we find that there is no pre-holiday effect in this period. The patterns of the pre-holiday effect differ according to the different periods of study. Accordingly, the pre-holiday effect is more apparent during the first subperiod of the study, i.e., from 3 January 1995 to 30 June 1997.

The empirical results of the pre-holiday effect in this study are not similar to the findings for other stock markets. For example, Brockman and Michayluk (1998) showed that the holiday effect is clearly present in New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX) from 1963 to 1993. In addition, Coutts et al. (2000) found that the holiday effect is present in the Athens Stock Exchange from 1986 to 1996.

This study provides additional insight into the half-monthly effect. The trading month is divided into two particular halves. The first half consists of the last trading day of the month and the first eight trading days of the following month. The second half consists of the nine days prior to the last trading day of the calendar month. We notice that the half-monthly effect exists only in a few stocks for the whole period and second subperiod, and there is no monthly effect in the first subperiod. Also, there is no evidence supporting presence of the firm size effect. Also, after controlling for the month-of-the-year effect, the results remain the same for each of the period of study. The patterns of the half-monthly effect remain the same for the different periods of study. Thus, the results give clear evidence of no persistent half-monthly effect during the whole period, and the first and second subperiods of study.

Similar results were obtained for the other countries. For example, Jaffe and Westerfield (1989) found only weak evidence supporting this monthly effect in Japan, Canada, Australia, and the United Kingdom. Wong (1995) showed that the intra-month effect reported for the United States equity market cannot be clearly found in the developing stock markets of Singapore, Malaysia, Hong Kong, Taiwan and Thailand. However, Ariel (1987) showed a monthly pattern for stock market returns of United States. He found that the mean return is positive only at the beginning of the month, i.e., starting from the last trading day of the previous month and continuing through the first eight trading days of the month.

The analysis on the time-of-the-month effect also shares similar results with the half-monthly effect. The calendar days were divided into three particular parts, i.e., the first third (day 28 of the previous month through day 7 of the current month), the second third (day 8 through day 17), and the last third (day 18 through day 27). We note that the time-of-the-month effect is not obvious for the whole period and the second subperiod. The result remains the same for the whole period when we controlled for the month-of-the-year effect. However, this effect disappears in the second subperiod after controlling for the month-of-the-year effect. Furthermore, there is no time-of-the-month effect in the first subperiod before and after controlling for the month-of-the-year effect. The patterns of the time-of-the-month effect remain the same for the different periods of study. Thus, we can conclude that there appears to be no persistent time-of-the-month effect during the whole period, and the first and second subperiods of study.

The empirical results of the time-of-the-month effect in this study are not similar to the findings by Kohers and Patel (1999). They found that the returns based on the Standard & Poor's Composite Index and the National Association of Securities Dealers Automatic Quotation System (NASDAQ) Index were highest during the first third of a month, experienced a drop during the second third of a month, and were lowest and negative in the last third of a month.

In conclusion, this paper does not provide evidence supporting the existence of persistent pre-holiday effect, half-monthly effect, and time-of-the-month

effect in the Malaysian stock markets from 3 January 1995 through 2 November 2000. Some of these results are not similar to previous findings for other stock markets, both developed and emerging. This supports the argument that investors should diversify their portfolio beyond country boundaries.

The findings of this study may be useful to the investors interested in the trading/services stocks traded on the Kuala Lumpur Stock Exchange (KLSE). The Efficient Markets Hypothesis (EMH) suggests that investors should not be able to earn abnormal profits since all information is reflected in the stock prices. The existence of various calendar anomalies implies that the investors have the opportunities to earn abnormal profits in the KLSE. But investors cannot use these calendar anomalies to make consistently abnormal returns all the time. The trading/services stocks seem to exhibit efficient behaviour, as is evident from the existence of fewer calendar anomalies.

Further research can and should investigate these calendar anomalies in the stocks of other sectors traded on the KLSE to examine whether we can arrive at the same conclusion as those reported in this study. Besides that, further analyses using more sophisticated econometric models would enhance our findings. Furthermore, other stock market anomalies such as the fundamental anomalies or technical anomalies should be studied in future using the same data set from this study.