SEASONALITY EFFECTS OF FINANCE STOCKS
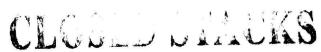
ON THE KUALA LUMPUR STOCK EXCHANGE

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ABSTRACT

The primary objective of this study is to investigate the seasonality effect or calendar anomalies of Finance stocks on the Kuala Lumpur Stock Exchange (KLSE) over the period of January 1992 to June 1999. Among the calendar anomalies investigated in this study are the day-of-the-week effect, the pre-holiday effect, the end-of-the-month effect and the firm size effect.

Empirical results reveal that there is an existence of the day-of-the-week effect in the financial stocks for the entire sample period. The results are consistent with those previous studies in which Monday's returns are significantly negative whilst Friday's returns are positive. In particular, small companies tend to show more significant results. The sub-periods analysis which base on the stock market performance further confirm that the day-of-the-week effect exists in a stable market rather than in the rising and declining market. However, there is no evidence of the pre-holiday and end-of-the-month effect in the entire sample.

This study further provides an evidence of the day-of-the-week effect exists in the bad news market environment with the highest negative returns occur on Monday. The result indicates that more bad news arriving on Mondays compared to other days. However, there is no evidence of the existence of the day-of-the-week effect in the good news market environment.

This study further investigates the day-of-the-week effect in the stock returns which may be due to the changes in stock return volatility by using the GARCH model. Empirical results verify that majority of stocks do not show the seasonality in the daily returns are due to changes in stock return volatility.

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