

**RETURNS AND VOLATILITY
IN THE MALAYSIAN STOCK MARKET:
A SECTORAL STUDY ON DAY-OF-THE-WEEK EFFECTS AND
CAUSAL RELATIONSHIP**

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ABSTRACT

This study examines the existence and persistency of the day-of-the-week effects on market trading returns and volatility in the overall market, both Main Board and Second Board and 9 sectors in the Kuala Lumpur Stock Exchange.

Empirical results reveal that seasonality exists in the return of whole market and all the sectors with Monday effect the most prominent. A trend of low and negative returns at the beginning of the week and high and positive returns at the end of the week is found. The day-of-the-week effects are found to persist in the stable market. Findings also indicate that the seasonality in returns can actually be explained by the changes in market risk except for the Second Board and Consumer Products sector.

Seasonal variations in volatility are not found in the overall market, the Main Board and most of the sectors in the market. Instances of positive findings of day-of-the-week effects in volatility are found in the Second Board in the overall period and the stable and rising market environment. The sectors of Properties and Mining display seasonality in the volatility in the whole period and/or stable market environment.

The study also examines the relationship between returns and risk. Highest returns for the week are found to coincide with the lowest volatility and vice versa. A possible explanation for this break from the general rule could be the flow of information.

Bidirectional causal relationship between returns and volatility is found for the overall market, the Main Board and 5 out of 9 sectors. The remainings indicate unidirectional causal relationship which is mostly of return Granger-causing volatility.

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