MONTH-OF-THE-YEAR AND FIRM SIZE EFFECTS ON THE KUALA LUMPUR STOCK EXCHANGE

BY

HII CHIN SEI

Bachelor of Arts with Education (Honours)

(Economics)

University Science of Malaysia

Penang, Malaysia

2001

Submitted to the

Faculty of Economics & Administration

University of Malaya

in partial fulfillment of

the requirement for the Degree of

MASTER OF ECONOMICS

November 2002

ACKNOWLEDGEMENTS

First and foremost, I wish to thank God for His devine help in opening up the opportunity to further my studies.

I would like to express my sincere appreciation and gratitude to my supervisor, Professor Dr. Kok Kim Lian, for his suggestions, dedicated guidance, patience, encouragement, his invaluable time and helpful advice which enable me to successfully complete this dissertation.

My special thanks to Lim Gin Hoe, for his help in obtaining necessary data to me. To Goh Huay Yuin, Tan Ai Geoy, Chang Mee Choo and Ooi Mong Lee, I wish to extend my gratitude for their provision of a couple of related computer software and their assistance in obtaining the necessary computer manuals.

My heartfelt thanks also go to my beloved parents, my sister and brother, Yih and Kiat, for their love and encouragement. I owe much to Kit, for his moral support, love and understanding. It is to them that I dedicate this dissertation.

Finally, I am deeply grateful for the encouragement and support from my course mates throughout the course.

ABSTRACT

The main purpose of this study is to empirically investigate the existence of seasonality in monthly stock returns and the relationship between seasonal return and firm size effect in the Malaysian equity market. The sample consists of six Kuala Lumpur Stock Exchange (KLSE) sectoral indices and Kuala Lumpur Composite Index (KLCI) for the period from January 1987 to December 2001.

The main finding of the study is that seasonality according to the Gregorian calendar is present in the Malaysian stock market which is mainly manifested as a January effect. The January returns have been found to be high and are significantly different from the rest of the year on average. Since there is no capital gain tax in Malaysia, the tax-loss selling hypothesis cannot explain the January effect. Instead, the anomaly may be best explained by the market integration hypothesis, gamesmanship hypothesis, and the parking-the-proceeds hypothesis in view that the January effect is also a worldwide phenomenon.

Evidence is also provided that there is higher return observed in February indicates the presence of the Chinese New Year (CNY) effect, which is attributed to the dominant role of the ethnic Chinese investors in the Malaysian stock market. In addition, the results of this study reveal that firm size effect is prevalent in the KLSE. Both January effect and CNY effect are more robust in smaller companies as

compared to larger firms. Further investigation reveals that the reverse August effect is reflected by the negative return in the month that may also be due to the impact of the global market integration.

TABLE OF CONTENTS

CHAPTER 3 DATA AND METHODOLOGY

CHAPTER 4 RESULTS INTERPRETATION AND DISCUSSION

LIST OF TABLES