

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

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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.

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