

MONTHLY SEASONALITY IN THE STOCK RETURNS OF MAIN BOARD AND SECOND BOARD LISTED COMPANIES

Prepared by: Ho Su-Ann

ABSTRACT

This dissertation examines two types of monthly seasonality, namely the January Effect and the October Effect. The former means that January documents higher abnormal returns compared to the rest of the months, whereas the latter means that stock returns are negative and statistically significant in October.

Prior studies on the KLSE have provided strong support for the January Effect. However, recent literature in Western markets indicates that this effect has shifted forward to November and December. As such, this dissertation investigates whether this latest market development applies to the KLSE as well. In addition, the researcher discusses the underlying theories of this anomaly.

The October Effect is relatively well-known to stock market players in Western countries, but hardly any academic studies have attempted to document this effect. This dissertation seeks to fill in that gap.

The researcher employed the methodology used by previous researchers to test for monthly seasonality. Among the tests performed were the independent samples t-test, Kruskal-Wallis, and one sample t-test. Furthermore, the researcher gathered data regarding investors' trading behaviours through questionnaires.

Consistent with the recent market development abroad, the researcher discovered that the January Effect no longer exists in the KLSE. This may be because investors are entering the market before January to exploit this anomaly. In addition, the researcher found that the risk-return trade off theory could not explain the January Effect and concluded that investors' trading behaviours had a greater influence on this anomaly.

A surprising discovery is that the October Effect is present in the KLSE. The researcher rejects the notion that investors are apprehensive of investing in October due to their superstitious belief that stock prices will fall. Instead, the possible reasons are investors are reactive instead of proactive, post-budget blues and correlation between the KLSE and Western markets.