CALENDAR EFFECTS OF THE COLOMBO STOCK MARKET

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Abstract

This study examines the calendar effects specially day of the week effects and month of the year effects in the Colombo stock market. The study on the day of the week effect was done based on daily all share price index (ASPI) for the period January 2004 to June 2015 and the study on the month of the year effect employs based on monthly ASPI for the period January 1998 to June 2015. The calendar effects are examined by applying multiple regression (OLS and GARCH models) using dummy variables. Regression results show that presence of the day of the week effect and month of the year effect in the Colombo stock market during the study period. Findings indicate significantly positive high returns on Friday while Monday returns are significantly negative in consistent with previous studies. In addition, the results shows a significantly positive returns on Wednesday and Thursday. In the case of monthly effect, there is a significantly positive high returns in September in the Colombo stock market in contradict to previous findings. There is no evidence for January or April effects during the study period instead there is September effect in the Colombo stock market. The findings of the calendar effects are important to the financial managers, financial analysts and investors to take a fruitful investment decisions.

Keywords: *Day of the week effect, Monthly effects, market returns; Colombo stock market*

Introduction

There are numerous studies on timing patterns in security returns. Calendar effects implies trading anomalies which enables traders in the stock markets to make extra market returns when they undertake stock transactions on a certain day of the week or month of the year. Watch (1942) first reported the prevalence of a seasonal January effect in the U.S. stock market where returns in January are higher than in any other month.[1] Rozeff and Kinney (1976) documented some evidence of higher mean returns in January as compared to other months. Using NYSE stocks for the period of 1904-1974, they find that the average return for the month of January was 3.48 percent as compared to only 0.42 percent for the other months. Later studies also shows that the January effect persists: Bhardwaj and Brooks (1992) for 1977-1986 and Chen and Singal (2004) for 1993-1999.

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1. Researchers around the world have documented that the average rate of return to stocks in the month of January is higher than in any other month of the year. This phenomenon is known in the finance literature as the January effect.

The previous studies interpret that January effect is because of window dressing, information, tax loss selling and bid ask bounce.[2] Bhabra, et al. (1999) demonstrated a November effect, which is observed only after the Tax Reform Act of 1986. They also find that the January effect is stronger since 1986. Taken together, their results support a tax-loss selling explanation of the effect. Brown et al. (1983) reported   strong seasonal effect in both January and   July for Australia, where the year-end   for tax purposes is June 30.   Keim (1983) and Reinganum (1983) find that the January effect exists primarily for small firms. Keim discovered that over 50% of January effect occurs during first week of January. Keim briefly discussed two possible theoretical explanations for this effect: the tax-loss-selling hypothesis and the information hypothesis. Chen and Singal (2004) find that the January effect exists due to both tax-loss selling and tax-gain selling. Gultekin and Gultekin, (1983) tested the monthly value-weighted indices in seventeen countries with different tax laws and tax year ends. They found a persistent January effect in most countries including Japan.

According to information hypothesis, the excess January returns are effect of significant information releases that occur in the first few days of January. Merton's(1987) investor recognition hypothesis is another way of looking at the information story. If investors become aware of companies when new information is made to public, they may be more inclined to buy shares because of increased awareness, resulting in the observed January returns. Jones and Lee (1995) summarized the information hypothesis involves an adverse selection problem that may explain how seasonal selling results in price pressure that survives arbitrage.

The day of week effect means some certain days provide higher return compare with other weekdays. The previous studies such as Aggarwal and Tandon, 1994**;** Al-Khazali et al., 2010; Chen et al., 2001; Doyle and Chen, 2009; Keef et al., 2009, identified Fridays has high return compare with the week days and Monday has lower return compare with other week days.

Most of the studies on calendar effects are concentrated on developed countries rather than developing countries and Asian countries. There are few studies based on Sri Lanka stock market. Abeysekera (2001) investigated the stock price behaviour in the Colombo stock market for the period 1991 to 1996 and his findings did not show the day of the week effect or monthly effect. Deyshappriya (2014) finds the evidence of the monthly effect in Colombo stock exchange using the OLS regression model and he show a significant positive return in the month of January and September and negative return in March, October, November and December. Further Thushara and Perera (2013), examined the study for the presence of the monthly effect in Colombo stock exchange based on the data from January 2000 to 2011 and employed non-linear GARCH model. Their findings show that the monthly return in January, February, April and September are significantly higher than average returns of other months.

2.   See Barry and Brown (1984), Poterba and Weisbenner(2001), Jones,Lee, and Apenbrink(1991), and Bharadwaj and Brooks (1992).

But the highest return received on September month and the lowest return received on the month of March. So, it is noticed that there are different finding in relation to Colombo stock market.

Therefore, the objective of this study is to investigate the day of the week effect and month of year effect on the stock return of Colombo stock market, in order to add to the literature by providing evidence of emerging market behavior using updated data.

The organization of this paper is as follows. Literature review is discussed in the section two. The data and methodology are described in the third section. In the fourth section results of regression analyses are presented. The section five concludes.

Literature Review

Efficient Market Hypothesis

Efficient market hypothesis is, one of the most important investigated issues in finance literature. The two most widely used definitions above the market efficiency are the followings; the capital market is efficient if all information set is fully reflected in stock return (Fama, 1970). Fama(1991), classified market efficiency into three forms,

1. Weak form (Predictability), all the information is considered in the past price history of the market at time.

2. Semi-strong form (Event studies), all the information above the market is publicly available at time.

3. Strong form (Inside information), all the information above the market should know by anyone at time.

Many researcher conducted different studies to test the seasonal effect on stock return related to the efficient market hypothesis. Such anomalies are the size effect and seasonal effects are the most important in the literature of previous studies.

Day of the week effect

Day of the week effect means the average daily return of stock market is not same for all the days of the week on the basis of efficient market hypothesis. There are several studies investigated the seasonal anomalies of day of the week effect in developed and developing economies (emerging markets). Allan and Riro (2013) find the average daily return on Monday and Sunday are negative and for all the other days of the week returns are positive. It's also revealed that only positive return on Thursday has statistically significant. Similarly, Mansoor Kazemi Lari (2013) provides the evidence for day of the week effect in Southeast Asian countries (Indonesia,Malaysia ,Philippines ,Singapore and Thailand) and noticed different seasonality in these countries using the parametric and non-parametric test for the period 2007 to 2012. They found that the day of the week effect presented in all these countries financial markets. Indonesia and Malaysia has negative return on Monday and Tuesday, Thailand has negative return on Monday and Thursday Philippines have negative return on Monday, Tuesday and Friday while Singapore has negative return for all days except

Wednesday. Further revealed that the highest positive returns of Thailand and Malaysia on Monday, Indonesia on Wednesday, Philippines on Tuesday and Singapore received on Thursday.

There are very few studies on the day of the week effect on Colombo stock market. Deyshappriya (2014) used OLS regression and GARCH(1,1) models to investigate the day of the week effect on stock return of the Colombo stock exchange(CSE) and show the average stock return on Friday is significantly higher than the other days of the week and also this result revealed that the negative Monday effect. Similarly Thushara (2011) also found the average daily return of the Colombo stock exchange significantly positive on Friday and Thursday and Wednesday also significantly higher than Monday and Thursday.

Monthly Effect

The month of the year effect means the stock returns in some months are higher than other months. The most common and interesting findings of the researches above the month of the year effects anomaly are the "January Effect" and the "April effect". It is highly argued that the returns of stocks on January and April month are different and significant from the other months of the year returns. This highly violates the efficient market hypothesis (EMH) that partially developed by the Fama in 1960s.

The first study that combined the January and size anomalies was by the Keim (1983). He reported that small firm returns during the month of January are significantly higher than the large firm returns and that approximately fifty percent of the size effect appears in January. Mahendra and Kumari (2006), studied month of the year effect in the Indian Stock Market over a period from 1979 to 1998. They found that the returns in April were significant higher and different from the rest of the months of the year.

Fountas and Segredakis (2002) investigated the month of the year effect in eighteen emerging equity markets over the period from January 1987 to December 1995 and noticed that stock returns for January were significantly higher than the returns for the remaining eleven months only in Chile, Greece, Korea, Taiwan and Turkey.

Rauf (2012), who found the monthly effect of stock return in developed and emerging markets during the period of 1985 to 2012. Kruskal Wallis test was employed for identify the existence of the monthly effect. He reported the positive return in April and December. Among these two months, April has highest positive return with other months and the lowest return identified the month of October in Australian stock market. For the Singapore market, positive monthly return is existed significantly in the month of December for the entire sample period from 1985 to 2012. In USA stock market, the positive significant average monthly return received in May and December. Also higher positive return reported in January and April but negative return received in August and September. The positive significant monthly return was reported in February and July as for the result of Hong

Kong stock market. Further, KSII Korea stock market has observed the highest positive return in January where positive significant mean return is reported in June and December and the negative significant monthly return in February, August and September. However, for Japan, positive significant monthly return in January and negative return received in June, July, August, September and October during the sample period. Finally, he provided the evidence for the presence of monthly return effect in Colombo stock exchange. His findings show the high positive average monthly return in January and September but significant effect is observed only in September and negative return received in December during the period from 1985 to 2012.

Kato and Schallheim (1985) studied the monthly returns in Japan during the twenty-nine year period 1952-1980. They found that there was a small firm effect: the average monthly return for the equally weighted index was 0.42% higher than the value weighted index. Kato and Schllheim found mean return differences in January returns to be size dependent from 1964 to 1980. A further result of their study casts more doubt on the tax-loss-selling hypothesis as an explanation of the January-size effects.

Methodology

The data for the study are collected from Colombo Stock Exchange (CSE). The data on the day of the week effect analyses are the daily all share price index (ASPI) for the period January 2004 to June 2015 and for the analyses on the month of the year effect are monthly ASPI for the period January 1998 to June 2015.

Day of the week effect

Daily return calculated using the ASPI daily closing prices. All the data which display the zero returns have been eliminated and also weeks where data are not available for all days of a week have also been eliminated.

The daily returns were calculated using the log-difference of the ASPI index, as follows,

$$Rmt = Log\ (I_{(t)}\ /\ I_{(t-1)})*100$$

Where Rmt is daily percentage return on day t, $I_{(t)}$ is closing value of ASPI on day t, and $I_{(t-1)}$ is the previous day closing value of ASPI.

To examine the day of the week effect, the following regression equation is estimated using the EViews software.

$$Rmt = \alpha_1 D_{1t} + \alpha_2 D_{2t} + \alpha_3 D_{3t} + \alpha_4 D_{4t} + \alpha_5 D_{5t} + \varepsilon t$$

Where Rmt is daily market return on day t, and D_1 through D_5 are dummy variable for Monday to Friday that takes the value of 1 for the given day and is 0 otherwise. Stochastic error term is indicated as εt. a_1-a_5 are coefficient of mean returns for Monday through Friday. In order to test the presence of any day of the week effect, the null hypothesis tested against with alternative hypothesis is

Hypothesis (H_0) $\alpha_1 = \alpha_2 = \alpha_3 = \alpha_{4=} \alpha_5$

If this hypothesis is rejected, it would imply that the daily returns α_i are significantly different from each other, then there is a day of the week effect.

Month of the year effect

For monthly return calculation, this study used monthly closing price of the ASPI. All data which give the zero return and also data does not available for all months of a year have been eliminated when calculating the monthly return.

The monthly returns were calculated using the log-difference of the ASPI index, as follows,

$$Rmt = Log (I_{(t)} / I_{(t-1)})*100$$

where   Rmt is monthly return on month t, $I_{(t)}$ is closing value of ASPI on month t, $I_{(t-1)}$ is closing value of ASPI on previous month.

To examine the monthly effect, the following regression equation is estimated using the EViews software.

$$Rmt = \alpha_1 D_{1t} + \alpha_2 D_{2t} + \alpha_3 D_{3t} + \alpha_4 D_{4t} + ... + \alpha_{12} D_{12t} + \varepsilon t$$

ε_t. α_1 to α_{12} are coefficient of mean returns for January through December.

In order to test the presence of month of the year effect, the null hypothesis tested against with alternative hypothesis is

Hypothesis (H_0) $\alpha_1 = \alpha_2 = \alpha_3 = ... = \alpha_{11} = \alpha_{12}$

If this hypothesis is rejected, it would imply that   the monthly returns α_i are significantly different from each other, then there is a monthly effect in the Colombo stock market..

Results

Day of the week effect

Table 1 presents summary statistics of daily market return of Colombo stock exchange for the period 2004 to 2015. The average daily returns on Monday and Tuesday are negative and Wednesday, Thursday and Friday are positive. The highest average daily returns (0.274) occurs on Friday with lowest standard deviation. Mean return for each days of the

Table 1: Summary statistics for daily return

Days	Observations	Mean	Std. Deviation	Minimum	Maximum
Monday	396	-0.139	1.229	-10.540	5.74
Tuesday	396	-0.085	1.148	-5.970	7.320
Wednesday	396	0.106	0.956	-4.980	5.210
Thursday	396	0.176	1.074	-4.610	7.570
Friday	396	0.274	0.874	-4.390	3.660
All	1980	0.066	1.075	-10.540	7.570

Where Rmt is monthly average return on ASPI on month t, D_1 through D_{12} are dummy variables for each month of the year, that takes the value of 1 for the given day and is 0 otherwise. Stochastic error term is indicated as

week is different from each other. Therefore, there may be a day of the week effect in the Colombo stock market during the period of 2004 to 2014. It is also noted that the average return of all the day is positive.

Regression results

Regression results of the effects of daily market returns of the Colombo stock exchange are provided in Table 2. The results indicates the coefficient of Friday and Thursday returns are

return and Monday has the negative return. This might be seen as an indicate that the existence of the day of the week effect in the Colombo stock market during the period of 2004 to 2014 in line with Ravindra Deyshappriya (2014),

Table 2: Regression results of day of the week effects

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Monday	-0.1387	0.0535	-2.588***	0.009
Tuesday	-0.0784	0.0535	-1.464	0.143
Wednesday	0.1062	0.0536	1.980**	0.047
Thursday	0.1758	0.0537	3.272***	0.001
Friday	0.2736	0.0535	5.111***	0.000

F-statistic   8.9782

Prob(F-statistic)   0.0000

Notes: *, **, *** significant at 10%, 5% and 1% level

significant positive at 1% significant level. The returns of the Wednesday also significantly positive at 5% level. But the coefficient of Monday return is significantly negative at 1% significant level. Friday has highest positive

Mehendran and Rahman (2010) on Malaysian stock market, Siqui Guo and Wang (2007) on Shanghai Stock market (China) and Maria Rosa (2009) in Greece. Further, F- statistics proves the rejection of hypothesis that daily

Table 3: Summary statistics for monthly return

	Observations	Mean	Standard Deviation	Minimum	Maximum
All Sample	192	1.04	7.03	-16.82	25.27
January	16	1.86	7.02	-9.47	14.03
February	16	1.21	4.25	-5.67	8.68
March	16	-1.23	4.01	-8.68	4.84
April	16	2.73	4.91	-5.60	12.47
May	16	0.90	6.81	-12.75	10.94
June	16	0.71	8.03	-14.86	22.15
July	16	2.47	4.78	-05.06	11.90
Auguest	16	0.13	6.02	-16.82	09.63
September	16	6.10	8.73	-11.06	23.67
October	16	0.15	8.80	-14.97	25.27
November	16	-1.80	8.00	-14.83	15.31
December	16	0.08	7.10	-16.15	15.53

stock returns are equal on each day of the week.

Month of the year effect

Table 3 presents summary statistics of the monthly stock returns of the Colombo stock market for the period 1998 to 2015. September has the highest return 6.10% with the standard deviation of 8.73 which proves high risk. The lowest negative returns are in November and March. The standard deviation for November shows 8.00 and standard deviation for March shows 4.01. These statistics provides evidence for existence of monthly effect in Colombo stock exchange during the period of 1998 to 2015.

Regression results of monthly returns

Tables 4 and 5 provides the regression results of month of the year effect under OLS model and GARCH model respectively. Both regression model show similar results. The

returns of September is significantly higher compared to other months. April has a positive return and presents the second highest position during the study period. The results further show that returns for March and November are insignificantly negative. All other months have a positive monthly return. So, Month-of-the-year effect is observed in the Colombo stock exchange stock return for the period of 1988 to 2015.

Therefore, the study indicates September effect in the Colombo stock market during the study period 1998 to 2015.

5. Conclusion

This study examines the calendar effects specially day of the week effects and month of the year effects in the Colombo stock market. The study on the day of the week effect was done based on daily all share price index (ASPI) for the period January 2004 to June

Table 4: Regression results of Monthly effect (OLS Model)

	Coefficient	t-Statistic	Prob.
JANUARY	1.864	1.0710	0.2856
FEBRUARY	1.211	0.6961	0.4872
MARCH	-1.234	-0.7092	0.4791
APRIL	2.726	1.5663	0.1190
MAY	0.092	0.0530	0.9577
JUNE	0.712	0.4094	0.6827
JULY	2.471	1.4197	0.1574
AUGUST	0.132	0.0763	0.9393
SEPTEMBER	6.100	3.5042***	0.0006
OCTOBER	0.150	0.086707	0.9310
NOVEMBER	-1.801	-1.034750	0.3022
DECEMBER	0.082899	0.047621	0.9621

Notes: *, **, *** significant at 10%, 5% and 1% level

Table 4: Regression results of Monthly effect (GARCH Model)

	Coefficient	z-Statistic	Prob.
JANUARY	1.497448	0.874886	0.3816
FEBRUARY	0.608926	0.252956	0.8003
MARCH	-1.663443	-0.670584	0.5025
APRIL	2.344082	1.293643	0.1958
MAY	-0.298462	-0.225784	0.8214
JUNE	0.624874	0.435094	0.6635
JULY	2.814624	1.392410	0.1638
AUGUST	0.439104	0.223413	0.8232
SEPTEMBER	6.441968	5.345264***	0.0000
OCTOBER	0.055066	0.034126	0.9728
NOVEMBER	-0.929072	-0.640497	0.5218
DECEMBER	0.372225	0.165654	0.8684
Variance Equation			
C	15.34235	2.156678	0.0310
RESID(-1)^2	0.217994	1.587975	0.1123
GARCH(-1)	0.454910	2.082406	0.0373

Notes: *, **, *** significant at 10%, 5% and 1% level

2015 and the study on the month of the year effect employs based on monthly ASPI for the period January 1998 to June 2015. The calendar effects are examined by applying multiple regression (OLS and GARCH models) using dummy variables. Regression results show that presence of the day of the week effect and month of the year effect in the Colombo stock market during the study period. Findings indicate significantly positive high returns on Friday while Monday returns are significantly negative in consistent with previous studies. In addition, the results shows a significantly positive returns on Wednesday and Thursday. In the case of monthly effect, there is a significantly positive high returns in September in the Colombo stock market. So, there is no evidence for January or April effects during the study period instead there is September effect in the Colombo stock market.

One possible explanation for such a lowest negative return for Monday may be that most of the negative economic news comes at the beginning of the week and investors try to sell their shares. Highest positive returns observed on Friday and it is statistically significant at 1% significant level. One possible explanation for such day of the week effect anomaly may be that most of the positive economic news comes at the end of week and investors show affirmative and hopeful investment behavior which result in a positive return on Fridays.

Fortune (1999) provided another explanation for the negative and positive return of days in a week that was the stock prices closed "too high" on Fridays or "too low" on Mondays.

One variant attributed to unusual high Friday closing prices was settlement delays. With the current T + 3 settlement schedules, settlement occurs on the third business day after the trade date. Buyers on Mondays and Tuesdays must pay during the same week (on Thursday and Friday), but buyers on Wednesday through Friday need to pay for five days because weekend occurs before the settlement day; they get an extra two days of interest-free credit from brokers before settlement. Monday prices must be lower than Friday prices to compensate those investors who delay purchases until Monday.

Regarding the September effect in the Colombo stock market during the period 1998 to 2015, the main reason for the September effect may be that many listed companies release their audited financial statements at the end of August and in the first week of September. It is like a "good news" earnings announcement. Another possible reason is that tourist arrivals start to increase in this month due to the autumn/winter in Europe and Western countries,

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