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Is the Hong Kong Stock Market Asymmetrical in Behavior?

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Abstract: This study uncovers that there exists asymmetrical market reaction on the positive and negative news by the TGARCH, EGARCH and EGARCH – M models. Thus, investors could use the calendar anomaly in terms of asymmetrical behavior information to avoid and reduce the risk when investing in the Hong Kong stock market.

Keywords: Hong Kong Stock Market, asymmetrical behavior; TGARCH; EGARCH; EGARCH-M.

JEL Classification Number: G12, C32

1. Introduction

The study of calendar anomaly remains one of the most popularly research issue in finance, as it embraces important implications for the participants who actively trade in the markets. Day-of-the-week effect is among the most commonly examined calendar anomaly. Aggarwal and Rivoli (1989), Wong *et al*. (1992), Chandra (2006) and Chia *et al*. (2014), just to name a few, have reported evidence of this calendar anomaly with respect to Hong Kong stock market. It is worth pointing out that Chandra (2006) employed the symmetric GARCH model to capture the market volatility. However, the asymmetrical behavior was not taken into their account. Engle and Ng (1993) points out that the market reaction on bad and good news tends to be asymmetry in nature. Therefore, the purpose of this study is to reexamine the existence of day-of-the-week effect in the Hong Kong stock market, with the consideration of asymmetry behavior.

2. Data and Methodology

Following Ricky *et al.* (2014), the data of this study consists of the daily closing values of the Hang Seng Index (HSI), ranging from 1st January 2000 to 31st December 2006. The following adjusted daily return was calculated (Koop, 2006) for analysis of asymmetrical behavior:

$$R_t = 100 \times ln(I_t / I_{t-1}) \quad (1)$$