INDONESIAN
CAPITAL MARKET REVIEW

Month of the Year and Pre-Holiday Effects In Indonesia and Malaysia *Shari'ah* Compliance

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This paper investigates the existence of two anomalies in Indonesia and Malaysia Shari'ah compliance; the month of the year and pre-holiday effect, and their implication for stock market efficiency. Investing in Shari'ah compliant is different from investing in conventional stock. Conventional stock market follows the capital market set of rules and law, while Shari'ah follows not only the capital market set of laws but also the Islamic principles. Most of the previous studies investigated issues related to conventional stock market, this study take one step further by investigating issue related to Shari'ah compliant instrument and make comparison between both Shari'ah compliance stock market in Indonesia and Malaysia. We document high and significant returns in month and pre-holiday in Indonesia and Malaysia stock market that represent by the Shari'ah compliance. Our result indicate that the month of the year effect is prevalent in Indonesia and Malaysia Shari'ah compliance.

Keywords: *Calendar effects, Indonesia and Malaysia Shari'ah compliance, Month of the year and pre-holiday effects*

Introduction

For almost ten years after the publication of Fama's classic exposition in 1970, the Efficient Markets Hypothesis (EMH) dominated the academic and business scene. According to this hypothesis the market is efficient if its price are formed on the basis of all available information. Stock market is efficient not only if all relevant information about the company are incorporated into stock price, but also influence investor rationality in taking investment decisions.

The assumption that investors are rational and therefore value investments rationally – that is, by calculating the net present values of future cash flows, appropriately discounted for risk – has not been supported by empirical evidence. Rather the evidence shows that investors are affected by herd instinct, a tendency to "churn" their portfolios, and a tendency to under-react or over-react to news or asymmetrical judgements about the causes of previous profits and losses. Furthermore, many alleged anomalies have been detected in the patterns of historical share prices. The best known are calendar anomalies.

A number of researchers have begun examined the calendar anomaly as early as 1980s and until the present time (e.g., French, 1980; Keim, 1983; Gultekin and Gultekin, 1983; Keim and

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