

## Monday Irrationality of Investors in Bursa Malaysia: The Role of Psychological Biases

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**Abstract:** This study aims to investigate the role of psychological biases in determining the day-of-the-week Monday irrationality in Bursa Malaysia using daily data from 1 January 1999 until 30 December 2011. First, our findings proved the existence of Monday irrationality in Bursa Malaysia. Second, our analysis found significant relationships between psychological biases and Monday irrationality. Evidence was documented through the interactive model and day-by-day model. This study enriches the behavioural finance literature by falsifying the traditional utility function model. It proves that the hedonic utility and prospect theory are applicable for the case of this study. Feelings of investors are involved in trading, and they react differently on Monday because of psychological biases. This implies that investors or fund managers can beat the market by following the cycle of calendar anomalies.

**Keywords:** Behavioural economics, Bursa Malaysia, Monday irrationality, psychological biases

**JEL classification:** G02, G19, O16

### 1. Introduction

Monday irrationality (hereafter MI) or also known as day-of-the week anomaly is an anomalous condition in the stock market where Monday returns are significantly dispersed as compared to other trading days. It was first documented by French (1980). Based on prospect theory, MI is driven by psychological factors and might be caused by perception bias. This is consistent with prior findings in conventional finance which concluded that trading behaviour might be the explanation for MI (see Abraham and Ikenberry 1994; Wong *et al.* 2006). However, we have not come across any empirical study that investigates whether investor behaviour is the source of this anomaly, a gap that this study aims to contribute.

The five main psychological biases in finance are affection, attribution in attention, heuristics, regret, and cognitive dissonance (Brahmana *et al.* 2012a). These psychological biases have been documented as important drivers in human behaviour. For example,

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