

Research Article

Holiday Effects In Malaysia: An Empirical Note

***Bakri Abdul Karim, **Zulkefly Abdul Karim and *Tang Ang Nee**

*Faculty of Economics and Business, Universiti Malaysia Sarawak (UNIMAS), 94300 Kota Samarahan, Sarawak

**School of Economics, Faculty of Economics and Management, Universiti Kebangsaan Malaysia, 43600 Bangi, Selangor, Malaysia

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Using daily data spanning from 2001 to 2009 and simple regression, this paper examines the holiday effects in Malaysia. The results show that to some extent the pre-holiday returns are higher than the other days. However, the equality test of the mean returns is not rejected for all sample periods. Thus it indicates that there is no holiday effect in Malaysia.

Key words: Holiday effect; Market efficiency, JEL Classification: C12, C22, G14

***Corresponding author:** akbakri@feb.unimas.my

INTRODUCTION

Since the early 1990s, anomalous calendar patterns in stock market returns have been extensively documented and analyzed by many researchers. These calendar anomalies include the holiday effect, day-of-the-week effect or weekend effect, monthly effect, turn-of-the-year and turn-of-the-month effects. One of the famous calendar anomaly is holiday effect, more specifically known as pre-holiday effect, refers to the observed fact that share returns typically exhibit consistent patterns around holidays, with high and consistent returns on days prior to major holidays (Lucey, 2005). If calendar anomalies in organized stock market existed, market inefficiency should present and investors should be able to earn abnormal rates of return by predicting the stock market movement on given days (Lim and Chia, 2010). Field (1934) argues that the holiday effect is the most consistent of all seasonal regularities.

In addition, the holiday effect has account for about 30 to 50 percent the total return on the US market in the pre-1987 period (Lakosinok and Smidt, 1988). Nevertheless, Brockman and Michayluk (1998) relate the holiday effect with investor psychology as most of the investors have a propensity to buy shares prior to holidays. One of the possible explanation is that the high spirits and holiday euphoria of the investors (Marrett and Worthington, 2009). Although well-grounded testable theoretical explanations for monthly and daily seasonality exist, there has been tiny if any effort made to formulate justifications for the holiday anomaly and even less in testing these (Lucey, 2005). There are growing number of literature examining the holiday effect in different countries and sample period. It has continued attracting the interest of academicians and researchers (Cadsby and Ratner, 1992;

Picou, 2006; Alagidede, 2008; Marrett and Worthington, 2009; Cao, Premachandra, Bhabra and Tang, 2009). There are numerous studies have produced evidence of abnormal pre-holiday returns in Australian (Marrett and Worthington, 2009), South African (Alagidede, 2008), and New Zealand stock markets (Cao et al., 2009) which in line with (Lakonishok and Smidt, 1988; Pettengill, 1989; Ariel, 1990; Liano, Marchand and Huang, 1992) in the U.S. stock market. However, one of the puzzling empirical findings reported in recent studies is the presence of abnormally high stock returns on day before holidays (Kim and Park, 1994).

Studies on the calendar anomalies in Malaysia that worth to mention are Othman (1987), Nassir, Mohammad and Hamid (1988), Wong, Neoh, Lee and Thong (1990), Wong, Hui and Chan (1992), Yen and Shyy (1993), Pandey (2002), Chia, Liew, Wafa and Wafa (2006), Tahir (2008) and Lim and Chia (2010). For example, Chia et al. (2006) found that month-of-the-year and day-of-the-week effects exist in Malaysia. However, the empirical findings reported in Wong et al., (1990) and Tahir (2008) are mixed. Tahir (2008) found a post Chinese New Year effect which is in contrast with Wong et al., (1990) as they found the pre-Chinese New Year effect. Consistent with Wong et al., (1990), Yen and Shyy (1993) also found evidence of significant excess returns prior to Chinese New Year effect in Hong Kong, Japan, Malaysia, Singapore, South Korea and Taiwan. In a more recent study, Lim and Chia (2010) found evidence to support for the day-of-the week effect in Malaysia and Thailand stock markets. In addition, Kim and Park (1994) and Marrett and Worthington (2009) documented evidence of the existence of pre-holiday effect but no post holiday effect in the US and Australian stock markets. Nevertheless, Lauterbach and Ungar (1992) found the present of post-holiday effect for the case of Israeli