

THE ROLE OF HERD BEHAVIOUR IN DETERMINING THE INVESTOR'S MONDAY IRRATIONALITY

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ABSTRACT

With regards to determining whether herding is spontaneous and irrational behaviour causing the Day-of-the-week anomaly, this paper intersects the Christie and Huang (1995) herd behaviour model with French's (1980) Day-of-the-week model in several layers of tests. We use firm-level data and investigate the return dispersion of 846 Bursa Malaysia stocks during 1990–2010. This paper found the herd behaviour is the determinant for investor's Monday irrationality, especially in small caps industry.

Keywords: herding, day-of-the-week anomaly, Malaysian listed companies

INTRODUCTION

A basic tenet of traditional economics is that investment decisions reflect rational expectation. In this assumption, decision-making utilises all available information in an efficient manner. Conversely, behavioural group nominates psychology factors as the driver in investment. For example, they counters the rational behaviour assumption by introducing the investor's Monday irrationality or known as the Monday irrationality.

Generally, Monday irrationality is defined as an anomalous event in the stock market where the returns of a certain day are significantly different from other day returns. There is no supported information in making the price, but it just sways away from the normal distribution (see [Dimson & Mussavian, 1998](#); [Malkiel, 2003](#)). This shows the violation of the rational behaviour assumption of traditional finance. Much research on it gauges investor behaviour as the explanation for the anomalous conditions in the market (see [Abraham & Ikenberry, 1994](#); [Clare, Psaradakis, & Thomas, 1995](#); [Berument & Kiymaz, 2001](#); [Wong, Agarwal, & Wong, 2006](#)). In the conclusion and limitation sections