

SEASONALITY EFFECTS OF EMERGING STOCK MARKETS: EVIDENCE FROM SRILANKA

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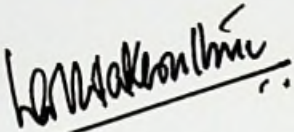


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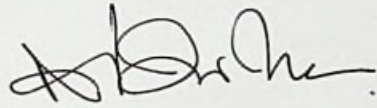
Declaration

I declare that the work included in this dissertation in part or whole has not been submitted for any other academic qualification at any institute.

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Abstract

This research investigates the existence of Calendar Anomalies in the Colombo Stock Exchange (CSE) over a 14 year period: 1 January 1994 through 31 March 2007. Out of the well admired calendar anomalies, this study examines the Day of the week and Holiday Effects.

Over the past three decades although a number of calendar anomalies have been discovered in stock returns in markets ranging from developed through emerging to less developed ones, only a handful of researches focused on emerging Asian capital markets. However most of such researches suffer from several restrictive assumptions innate to the Multivariate Regression Analysis. This study, on contrary, covers up a sample period considerably longer and exploits an improved model. The market strategies suggested and the inferences that can be made to the weak form of market efficiency further validate the importance of this study.

This study basically utilizes the logarithmic form of the non dividend adjusted closing daily return data of the All Share Price Index (ASPI) of CSE and employs the same Multivariate Regression Analysis but with some adjustments to control any bearing of all other possible events on the stock returns and to wipe out some of the restrictive assumptions, as such measures are imperative in avoiding spurious results.

The results suggest that stock returns in the CSE to a certain extent are not in agreement with the random walk hypothesis as they indicate the presence of a strong day of the week effect during the period under study with the highest and lowest (and the negative) returns observed on Fridays and Mondays respectively. On contrary to some of the findings in the region and US, CSE indicates the presence of significantly positive post holiday returns during the same period.

The limited role played by Brokerage Companies, frequent market manipulations reported over the past few years and other institutional reforms seem to be rational explanations for the presence of seasonal anomaly. This finding in fact implies a constructive trading strategy to the market participants, those investors who want to buy stocks should avoid doing so on Fridays and those who want to sell should avoid doing so on Mondays.

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Abbreviations

ASPI	: All Share Price Index
ATS	: Automated Trading System
CAPM	: Capital Assets Pricing Model
CRSP	: Centre for Research and Security Prices
CSE	: Colombo Stock Exchange
DEX	: Debt Securities Exchange System
EMH	: Efficient Market Hypothesis
GARCH	: Generalized Autoregressive Conditional Heteroskedastic
MPI	: Milanka Price Index
SAFE	: South Asian Federation of Exchanges
SBL	: Stock Borrowing and Lending
SEC	: Securities Exchange Commission, Sri Lanka
SI	: Sensitive Index
SIERA	: Share Investment External Rupee Account
SRO	: Self Regulatory Organization
TRI	: Total Return Index
WFE	: World Federation of Exchanges