A STUDY ON RELIGIOUS AND SECULAR HOLIDAY EFFECTS:
EVIDENCE FROM MALAYSIAN STOCK MARKET

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ABSTRACT

This paper investigates the presence of holiday effect in the Malaysian stock market by comparing daily stock returns on the trading day around holiday period with the daily stock returns on normal trading days. To examine the holiday effect more specifically, the public holidays in Malaysia are categorized into religious holiday and secular holiday. The sample of this study comprises daily closing price of FTSE Bursa Malaysia KLCI over a period of eight years from year 2005 to 2012. This paper uses one trading day before and after a holiday to represent the pre- and post-holiday effects. The holiday effects are analysed using descriptive analysis and regression analysis with dummy variable. Results show that the secular holiday effect is stronger than the religious holiday effect in the Malaysian stock market. However, when the impact of global financial crisis is considered, the secular holiday effect in Malaysia disappears during and after the global financial crisis. Only the return during post-religious holiday trading day exhibits significant effect after the crisis. The pre-religious holiday effect does not exist in the Malaysian stock market. This study concludes that the Malaysian stock market is not informationally efficient since holiday effect is present in the stock market. However, the holiday effect in Malaysia is not persistent and tends to disappear over time. Investors should therefore increase their awareness if they wish to realize abnormal return from the holiday anomalies in the market.

Keywords: stock return, religious holiday effect, secular holiday effect, Malaysian stock market
ABSTRAK


Kata Kunci: pulangan saham, kesan cuti agama, kesan cuti sekular, Bursa Malaysia
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LIST OF ABBREVIATIONS

Kuala Lumpur Composite Index KLCI
Daily market return $\bar{R}_t$
Pre-religious holiday effect PRE_REL
Post-religious holiday effect POST_REL
Pre-secular holiday effect PRE_SEC
Post-secular holiday effect POST_SEC
1.0 Background of the Study

In stock market, there is always a tendency for investors to earn more than average returns in their investment, or in more popular term, “to beat the market”. These endless attempts by investors have raised researchers’ attention in investigating the effect of market efficiency that has additionally become one of the most controversial topics in financial literature over past decades.

Basically, market efficiency can be classified into three types, namely allocational efficiency, operational efficiency and informational efficiency. Allocational efficiency exists when capital resources are allocated in a way that highest return can be achieved by all participants. Operational efficiency occurs when market participants are able to execute transactions at fair competitive cost. Informational efficiency refers to a market condition in which security prices fully reflect all available information in the market (Abdullah, 2012). Among the three types of market efficiency, informational efficiency is the most and well discussed topic in the Efficient Market Hypothesis proposed by Fama (1970).

Under the Efficient Market Hypothesis, Fama (1970) claims that investors are unable to consistently derive above average risk adjusted profit since current stock prices have already incorporated all available information in the market. Investors
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