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AN ANALYSIS OF RETURN BEHAVIOR OF INDONESIAN STOCKS

Rosita P. Chang and S. Ghon Rhee

ABSTRACT

Daily close-to-close returns of Indonesian stocks do not exhibit the day-of-the-week effect after the holiday effect and the month effect are isolated. When daily returns are decomposed into trading and non-trading period returns, however, the day-of-the-week effect emerges, including the Monday effect. The Monday effect is characterized by significantly positive returns during the trading period and negative returns during the non-trading period even after the holiday effect and the month effect are taken into account. The firm size effect does not explain the results.

INTRODUCTION

The existence of a day-of-the-week effect has been well documented for U.S. stocks. French (1980) documents that the average return for Monday is significantly negative and that the other days of the week have positive returns of differing magnitude. Of the remaining four days, the average daily return for Friday is the highest. Although the day-of-the-week effect tends to be more pronounced among

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small-sized firms, it characterizes the daily returns of all size portfolios (Keim 1983; Keim and Stambaugh 1984; Rogalski 1984). Negative Monday returns and large positive Friday returns remain as one of the unresolved empirical anomalies for U.S. stocks.[1]

Rogalski (1984) and Harris (1986) examined intraday returns to gain insight into this empirical issue. Rogalski (1984) decomposed daily close-to-close returns in the S&P 500 Index and the DJIA into overnight non-trading period and daytime trading period returns. Based on the finding that a large portion of negative Monday returns, measured from Friday close to Monday close, occurs from Friday's close to Monday's open, he suggests that the Monday effect is actually a non-trading weekend effect. Harris (1986) observes that this non-trading weekend effect is valid only for large-sized firms, while for small-sized firms negative Monday returns accrue primarily during the Monday trading period.

The Japanese market also exhibits weekday anomalies including: (i) Tuesday returns are negative and are smaller than other weekdays; (ii) Monday returns tend to be small and oftentimes negative; and (iii) large positive returns are observed on Wednesdays and Saturdays, when there was Saturday trading (Jaffe and Westerfield 1985b; Kato 1990; Ziemba 1990).[2] The anomalies related to weekly seasonality are not limited to the U.S. and the Japanese markets. Consistent with evidence on the Japanese market, other stock markets in the Asia Pacific region also display intraweek seasonal patterns which are characterized by negative Tuesday returns and positive Friday returns (Jaffe and Westerfield 1985a; Ho 1990).

The main purpose of this study is to examine the day-of-the-week effect of Indonesian stocks. Although initial public trading of Indonesian corporate securities dates back to 1912, the return behavior of Indonesian stocks remains relatively unknown to academic researchers outside Indonesia, largely due to the lack of comprehensive Indonesian capital market information.[3] We plan to analyze the impact of firm size on daily stock return behavior. The day-of-the-week effect is analyzed in isolation of the holiday effect and the monthly seasonal effect. For this study, the Jakarta Stock Exchange (JSX) supplied transaction data for JSX-listed firms for the period from September 1, 1992 to February 28, 1994. Although the sequence of daily transactions for each firm is not time-stamped, the reported transactions are recorded in the order of execution. Therefore, the first transaction determines the opening price and the last transaction determines the closing price for each stock on a particular trading day. Our analysis is limited to regular trades which are conducted under a competitive auction system, in contrast to non-regular trades where transaction prices are determined through negotiation.[4] Of a total of 182 firms (including six delisted firms) listed on the JSX during the study period, 105 firms survived the following exclusion criteria: (i) newly listed firms in 1994 are excluded from the sample; (ii) any stocks with fewer than 60 observations of daily close-to-close returns during the study period are eliminated from the sample; and (iii) after stock prices are adjusted for right offerings, stock dividends, and stock splits, daily returns greater (less) than +30% (–30%) are treated as missing.