DAY OF THE WEEK EFFECT AND STOCK MARKET VOLATILITY: FURTHER EVIDENCE FROM MALAYSIA EXCHANGE

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This paper examines the day of the week anomalies at the Malaysian Exchange during various economic situations. In particular, the paper looks at the existence of day of the week effect for various indices, the popular benchmark Composite Index, the broader based Emas Index, smaller capital based Second Board Index, Financial Index of the Main Board and one of the newly created sectoral index of Trade and Services. Three estimation models are used to investigate the presence of daily effect in these indices: the Ordinary Least Squares regression (OLS), Box and Jenkins ARIMA and the GARCH(p,q) models for capturing changing volatility in the stock returns. The OLS results reveal negative Monday mean returns for each of the indices for the whole sample period. As expected during the Asian Economic Crisis period, the mean returns are negative for each day of the week, with Thursday recording the largest negative returns. Negative mean returns on Monday are not generally observed for each of the indices in recent years (during the World Economic Crisis and the following Recovery Period). When the changing volatility in the financial market is taken into account, the Monday negative returns remain significant during the whole sample period.

Keyword: anomalies, changing volatility, GARCH

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