Saudi Journal of Business and Management Studies **ISSN 2415-6663 (Print)**
Scholars Middle East Publishers **ISSN 2415-6671 (Online)**
Dubai, United Arab Emirates
Website: http://scholarsmepub.com/

Reviewing the Weekend Effect on Stock Market Returns: a Theoretical Perspective

Eyad Mohamed Malkawi[1], Mohamed Ibrahim Mugableh[2]*, Khalid Adnan Bataineh[3], Raed Walid Al-Smadi[4]
[1]Financial & Banking Sciences Department, College of Administrative & Financial Sciences, Irbid National University, Jordan
[2]Head of Financial & Banking Sciences Department, College of Administrative & Financial Sciences, Irbid National University, Jordan
[3]Head of Business Administration Department, College of Administrative & Financial Sciences, Irbid National University, Jordan
[4]Financial & Banking Sciences Department, College of Administrative & Financial Sciences, Irbid National University, Jordan

***Corresponding author**
Mohamed Ibrahim Mugableh

Article History
Received: 06.11.2017
Accepted: 17.11.2017
Published: 30.11.2017

DOI:
10.21276/sjbms.2017.2.11.3

Abstract: This paper reviews the weekend effect on stock market returns. The weekend effect anomaly is contrary to the theory of market efficiency. This anomaly is appealing to be examined because the presence of weekend effect can be useful as a trading strategy that can gain profits for investors. Investors could buy stocks on days with abnormally low returns and sell stocks on days with abnormally high returns.
Keywords: Investment Strategy; Stock Returns; Weekend Effect

INTRODUCTION

Information is one of the key factors for an investor in the capital market. Efficient market is defined as one in which the prices of securities quickly and fully reflect all available information about the assets [1]. According to the efficient market, prices of securities are assumed random, not patterned, and unpredictable. Market anomalies are in contrast to what would be expected in a totally efficient market. Numerous empirical studies have indicated persistent and potentially exploitable weekend effect and January effect in stock returns in many countries. The first study of weekend effects in security markets appeared in the Journal of Business in 1931, written by Fields [2]). Fields didn't use statistical tests, but many researchers interested in the same field of research. French [3] continued this direction of research and was the first author to employ statistical methods in order to test for the existence of the calendar effects. There're many other studies about weekend effect anomaly, which referred to the negative Monday returns and the positive Friday returns [4-6].

However, various studies on market anomalies not occurred only on Monday and Friday, but also occurred on other days. There're negative returns on Tuesday [7]. Elango and Al [8] found the lowest returns were on Monday and Friday, whereas the highest returns were on Wednesday. Tachiwou [9] found the lowest returns were on the middle of the week, Tuesday and Wednesday, and a higher pattern towards the end of the week, Thursday and then Friday. Derbali and Khadraoui [10] negative returns on Wednesday and positive returns on Friday. Darrat, Li and Chung [11] found Monday Effect and Tuesday Effect, whereby the returns on Monday and Tuesday were significantly lower than the return on the benchmark day of Wednesday.

Market anomaly also appears on January month, it's called January effect. Wachtel [12] was the first to examine January effect. Since this discovery, many studies that examined this market anomaly. Other researchers that supported the existence of January effect were Kato and Challhei [13]; Choudhry [14]; Al-Rjoub and Alwaked [15]; and Guler [16]. Market anomalies also appear on other months. Ahsan and Sarkar [17] found June Effect in Bangladesh, whereby there were significant positive returns on June. However, in contrast to the findings from Nageswari *et al.* [18], they found the highest returns were on December and the lowest returns were on January. Ogieva *et al.* [19] found negative returns were on February, March, April, May and December, whereas positive returns were on January, August, September, October and November. Stock prices in the stock

market will always fluctuate. Fluctuations in market can occur whether in up or down market. For a rational investor, those fluctuations must be faced with a good investment strategy to obtain the optimal returns at a certain level of risk that is able to be carried.

LITERATURE REVIEW

Weekend effect is used to describe the phenomenon in financial markets in which stock returns on Monday are often significantly lower than those of the immediately preceding Friday [20]. Weekend effect anomaly is contrary to the theory of market efficiency. This anomaly is appealing to be examined because the presence of weekend effect can be useful as a trading strategy that can gain profits for investors. Investors could buy stocks on days with abnormally low returns and sell stocks on days with abnormally high returns [9]. Fields [2] examined the pattern of the Dow Jones Industrial Average (DJIA) for the period 1915-1930. He compared the closing price of the DJIA for Saturday with the mean of the closing prices on Friday and Monday. For the 717 weekends he studied, the Saturday prices were more than 10USD higher than the Friday-Monday mean. French [3] continued this direction of research and was the first author to employ statistical methods in order to test for the existence of the calendar effects. He used the S&P500 index to study daily returns and obtained similar results. He studied the period 1953-1977 and found that the mean Monday returns were negative for the full period and also for every five year sub-period. The mean returns were positive for all other days of the week, with Wednesdays and Fridays having the highest returns.

Lin and Chen (2008) found the weekend effect in the Taiwan mutual fund market in period January 1986 to June 2006. The results revealed significantly negative Monday returns and positive Friday returns. This weekend effect did not vary greatly between the early and later periods of the month. Cinko and Afci [5] used the data in Istanbul Stock Exchange from ISE-100 Index. The data set was composed of daily returns for 324 stocks traded in ISE and market capitalization based portfolio returns during 1995-2008. By the use of regression model, they found significant negative Monday returns and significant positive Thursday and Friday returns. Kamath and Liu [6] examined the daily return data on the market index, IPSA, of the Santiago Stock Exchange of Chile. By using the regression model, in the first sub-period (January, 2003-October, 2005), there was the traditional Monday-Friday pattern, in the second sub-period (November 2005 – Augustus' 2008), the anomaly effect was attributable to the significantly positive Wednesday returns. However, various studies on market anomalies were occurred on other days. Raj and Kumari [7] investigated the presence of seasonal effects in the Indian stock market by the two major indices, the Bombay Stock Exchange Index and the National Stock Exchange Index.

By using the multiple regression models, the results found returns on Monday were positive, returns on Tuesday were negative and January effect was not found in India. Elango and Al [8] used the real-time data of the National Stock Exchange of India (NSE) for 1999-2007 period of three of the major indices, S&P CNX Nifty, S&P CNX Defty, and CNX Nifty Junior. Results indicated lower returns on Monday and Friday. Surprisingly, Wednesdays have yielded the maximum returns across indices. Tachiwou [9] investigated daily stock market anomalies by using daily opening and closing values for the two stock Index of West African regional markets from September 1998 to December 2007. The two indexes were Brvm-10 index and Brvm-composite index. A pattern of lower returns around the middle of the week, Tuesday and then Wednesday; and a higher pattern towards the end of the week, Thursday and then Friday, were observed. Derbali and Khadraoui [10] used the data of Morocco Exchange Market for 74 companies. The results showed that Friday was a statistically significant positive return on assets. While that on Wednesday was a statistically significant negative return on assets. Darrat, Li and Chung [11] examined seasonal anomalies in Johannesburg daily stock returns from January 1973 to September 2012. They found no compelling evidence for either a January or December effect in the South African market. Returns on Monday and Tuesday were significantly lower than the returns on the benchmark day of Wednesday. Nevertheless, these strong seasonal effects disappeared in thepost-2008 period following the global financial crisis. Market anomalies also occur in January month, whereby stock prices tend to fall towards the end of December and then recuperate quickly in the first month of the New Year, January [17]. Wachtel [12] was the first to examine January effect in the Dow Jones Industrial Average (DJIA) Index from 1927 to 1942. He found that the returns in January were higher than other months. Since this discovery, many studies that examined this market anomaly. Researchers who supported the existence of January effect were Kato and Schallheim [13].

Kato and Schallheim [13] used the data for the twenty-nine year period of 1952 to 1980 in the Japanese stock market in two market indices, Value Weighted Index (VWI) and Equally Weighted Index (EWI). This study examined stock returns on the TSE for the presence of January and size effects. Both of these anomalous effects appeared in the Japanese data. Choudhry [14] investigated seasonal anomalies in the mean stock returns of Germany, the UK, and the US during pre-World War I period using the data from January 1870 to December 1913 in Germany and the UK and from January 1871 to December 1913 for the

US. The empirical research was conducted using a nonlinear GARCH-t model. Results obtained provide evidence of the January effect and the month of the year effect on the UK and US returns. There was month of the year anomaly, but there was no January effect in German returns. Al-Rjoub and Alwaked [15] used the data from the Dow Jones industrial average (DJIA), the Standard and Poors 500 (S&P 500) and the National Association of Securities Dealers Automated Quotations (NASDAQ) indices by using Ordinary Least Square regression, this paper found that the average January returns were consistently negative during crises. They also found that average loss in returns of January during crises were much smaller than average loss in returns during other months of the crises. Guler [16] found January effect in China, Argentina and Turkey returns.

However no evidence of a January effect was found at Brazil and India stock markets. Market anomalies also occur in other months. Ahsan and Sarkar [17] examined the existence of January effect in Dhaka Stock Exchange (DSE) in Bangladesh. Regression model combined with dummy variables and monthly DSE All Share Price Index (DSI) from January 1987 to November 2012 has been used to test January effect in the stock return in DSE. It was empirically found that, although January anomaly didn't exist in DSE, there was significant positive return in June. Nageswari *et al*. [18] found that the highest mean return was earned in December and the lowest/ negative mean return earned in January Month for S&P CNX Nifty index. The S&P CNX 500 Index recorded the highest mean return in the month of March and the highest negative mean returns in the month of January. The analytical results of seasonality indicated the absence of January anomaly during the study period. Ogieva *et al*. [19] examined the calendar effect in the Nigerian Stock Market from 19 April 2005 to 30 September 2010. Using the multiple ordinary least square regressions, they found negative returns on Monday, Thursday and Friday. They also found positive returns on Tuesday and Wednesday. Returns in February, March, April, May and December were negative significant, Whereas the positive returns appeared in January, August, September, October and November. In the case of June and July there were mixed signs.

REFERENCES

1. Jones, C. P. (2007). *Investments: analysis and management*. John Wiley & Sons.
2. Fields, M. J. (1931). Stock prices: a problem in verification. *The Journal of Business of the University of Chicago*, *4*(4), 415-418.
3. French, K. R. (1980). "Stock Returns and the Weekend Effect" *Journal of Financial and Economics* (1980).
4. Lin, M. C., & Chen, M. (2008). The profitability of the weekend effect: Evidence from the Taiwan mutual fund market. *Journal of Marine Science and Technology*, *16*(3), 222-233.
5. Cinko, M., & Avci, E. (2009). Examining the day of the week effect in Istanbul Stock Exchange (ISE). *The International Business & Economics Research Journal*, *8*(11), 45.
6. Kamath, R., & Liu, C. (2011). The day-of-the-week effect on the santiago stock exchange of chile. *Journal of International Business Research*, *10*(1), 11.
7. Raj, M., & Kumari, D. (2006). Day-of-the-week and other market anomalies in the Indian stock market. *International Journal of Emerging Markets*, *1*(3), 235-246.
8. Elango, D., & Al Macki, N. (2008). Monday effect and stock return seasonality: Further empirical evidence.
9. Tachiwou, A. M. (2010). Day-of-the-week-effects in west African regional stock market. *International Journal of Economics and Finance*, *2*(4), 167.
10. Derbali, A. (2011). Day of the week effect on assets return: Case of the stock exchange of casablanca. *Browser Download This Paper*.
11. Darrat, A. F., Li, B., & Chung, R. (2013). Seasonal anomalies: A closer look at the johannesburg stock exchange. *Contemporary Management Research*, *9*(2), 155.
12. Wachtel, S. B. (1942). Certain observations on seasonal movements in stock prices. *The journal of business of the University of Chicago*, *15*(2), 184-193.
13. Kato, K., & Schallheim, J. S. (1985). Seasonal and size anomalies in the Japanese stock market. *Journal of Financial and Quantitative Analysis*, *20*(2), 243-260.
14. Choudhry, T. (2001). Month of the year effect and January effect in pre-WWI stock returns: evidence from a non-linear GARCH model. *International Journal of Finance & Economics*, *6*(1), 1-11.
15. Al-Rjoub, S. A., & Alwaked, A. (2010). January effect during financial crises: Evidence from the US. *European Journal of Economics, Finance and Administrative Sciences*, *24*(24), 29-35.
16. Guler, S. (2013). January Effect in Stock Returns: Evidence from Emerging Markets. *Interdisciplinary Journal of Contemporary Research in Business*, *5*(4), 641-648.
17. Ahsan, A. M., & Sarkar, A. H. (2013). Does January Effect Exist in Bangladesh?. *International Journal of Business and Management*, *8*(7), 82.
18. Nageswari, P., Selvam, M., Vanitha, S., & Babu, M. (2013). An empirical analysis of january anomaly in the Indian stock market. *International Journal of Accounting and Financial Management Research*, *3*(1).

19. Osazee Frank Ogieva MSc, A. C. A., & Eseoghene Joseph Idolor PhD, A. C. E. (2013). Testing calendar effect on Nigerian stock market returns: Methodological approach. *Journal of Financial Management & Analysis*, *26*(1), 39.
20. Singhal, A., & Bahure, V. (2009). Week-end effect of stock returns in the Indian market. *Great Lakes Herald*, *3*(1), 12-22.