Stock Market Anomalies: A Survey of Calendar Effect in BSE-SENSEX

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Abstract

Calendar effect connotes the changes in security prices in stock market following certain trends based on seasonal effects. Such trends or consistent patterns occur at a regular interval or at a specific time in a calendar year. Presence of such anomalies in any stock market is the biggest threat to the concept of market efficiency as these anomalies may enable stock market participants beat the market by observing these patterns. This notion again violates the basic assumption of efficient market hypothesis (EMH) that no one can beat the market and earn the profit in excess of market. Daily stock returns are also different from each other at different points of time during a month. This study tried to test this difference by dividing a month into segments and then analyzing the returns for these segments separately in order to find out that in which segment daily stock returns are highest.

This study has been conducted to find out whether Turn of the Month Effect and Time of the Month Effect in BSE-SENSEX. Data pertaining to daily stock index of SENSEX, the capital weighted index of Bombay Stock Exchange (BSE) for the period April 1998 to March 2008 has been used in this study. This study has been conducted to test the market efficiency in Indian stock market by examining calendar effect present in Bombay Stock Exchange, the largest stock exchange in India. In order to test the evidence of calendar anomalies, BSE's leading index BSE 30 SENSEX has been selected as a sample for this study.

Results from this study reveal that a very anomalous behaviour towards returns has been found in BSE 30. For both the effects, the Turn of the Month effect as well as the Time of the Month effect, significant values were found. Both the effects are found to be almost same. Returns during a month are analyzed by dividing that month into three parts separately. And it was found that early days of the month witness higher mean returns than later days of the same month. The reason behind this trend could be the cognitive belief of investors with regard to new and positive changes in policies and newer information in the coming month. This results in selling pressure by investors with the hope to get positive benefits, leading to low returns at the end of month. With the beginning of new month, investors start buying into stocks following the same cognitive belief and incorporating new information.

Existence of these anomalies in Bombay Stock Exchange is against the principle of market efficiency as it may offer abnormal economic rewards to the investors tracking these anomalies. Those at helm should chalk out policies to check this anomalous behaviour of the stock market so that the market could become really efficient.

Keywords: Stock market anomalies, Calender effect, Turn of the month effect, Time of the month effect

JEL Classification: G12, G14

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