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Day-of-the-week effect on the return and conditional variance of the H-shares index in Hong Kong

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Abstract

The purpose of this article is to investigate the day-of-the-week effect on both the return and conditional variance (volatility) of the H-shares index in Hong Kong from 3 January 2000 to 1 August 2008. Using an Exponential General Autoregressive Conditional Heteroskedasticity (EGARCH) specification to model the conditional variance, we find that the day-of-the-week effect is present in both return and variance equations. In particular, higher risk-adjusted returns are found on Monday and Friday.

However, for the conditional variance, we find that the day-of-the-week effect is only present on Monday. The highest risk-adjusted returns are found on Monday and Friday. The highest risk-adjusted returns are found on Monday and Friday. The highest risk-adjusted returns are found on Monday and Friday.

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Notes

¹The H-shares index (Hang Seng China Enterprises index) was launched in 1994 in order to measure the performance of H-shares. The details of the H shares and the H-shares index are described on the website of the Hang Seng Indexes Co. Ltd. (www.hsi.com.hk).

²While the conditional variance is modelled as an Exponential General Autoregressive Conditional Heteroskedasticity (EGARCH) specification, Model 1 is known as an EGARCH-M model. Similarly, Clare et al. ([1998](#)) and Kiyamaz and Berument ([2003](#)) applied the GARCH-M model to the investigation of the day-of-the-week effect in some stock market indices.

³The Shanghai A-share index tracks the price performance of all A-shares listed on the Shanghai Stock Exchange in China (www.sse.com.cn).

⁴Our results of significant positive Monday effects on H-shares index returns are in contrast to those studies using the Hang Seng index as a case study of the Hong Kong stock market; those studies provide evidence of negative Monday effects. See Lee et al. ([1990](#)), Ho ([1990](#)), Wong et al. ([1992](#)) and Agrawal and Tandon ([1994](#)).

⁵See the HKEx Fact Book 2008, Hong Kong Exchanges and Clearing Ltd.

⁶Likewise, settlement procedures cannot explain the daily seasonal anomaly in stock markets of many western countries (Agrawal and Tandon, [1994](#)) and Mainland China (Wong et al., [1999](#)).

⁷Effective 1 April 2003, the brokerage fee is freely negotiable between brokers and their clients. For example, the Hong Kong and Shanghai Banking Corporation (HSBC) charges its client a fixed brokerage fee of 0.0025% of the transaction value and in reduced transaction levy is 0.0001% of the transaction value ([http://www.hsbc.com.hk](#)).

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