Re-Examination of the Day of the Week Effect on the Indian Stock Market: A Study With Reference to S&P CNX 500 Index.

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Abstract : *Investors and Analysts are not likely to predict stock price movements consistently in the case of informationally Efficient Markets. However, market participants make concerted efforts to earn abnormal returns by discerning some anomalous pattern in the stock price movements. This study re-examines the Day of the Week Effect in the Indian Stock Market during the period of 2002 - 2009. This study used the daily closing prices of S&P CNX 500 Index. The results of Descriptive Statistics, Correlation, Regression Analysis, and Unit Root Tests clearly indicate the presence of weekend effect. The study also employed a Non-Parametric Test to discover evidence to support the existence of the above phenomenon. Highest mean returns on Friday and lowest mean returns on Tuesday were observed during the study period. Further there is strong significant positive correlation co efficiency between Monday and Friday and no significant relationship between the returns of other trading days of the week. The returns of the week days are stationary in the Indian Stock Market. The day of the week pattern did not appear to exist in the Indian Stock Market.*

Key words: Efficient Markets, Day of the Week Effect, Indian Stock Market, Anomalous pattern, Abnormal Returns.

INTRODUCTION

The efficient stock market ensures rapid information access and helps to instantaneously process the information which would be reflected in the security prices. The Information Transmission Mechanism ensures that the stock returns across all days of the week are equal. No market participant can earn any extra normal returns. Hence, identical mean returns across all days support the proposition of the Efficient Market Hypothesis (EMH).

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An efficient market is one where a large number of rational and informed investors actively compete with one another and predict the future market values of individual securities. The market efficiency is , assumed in spite of the Tax Asymmetries, Information Asymmetries, Difference in Transaction Costs, Trading Restrictions, Week-End-Effects, Varying Trading Practices etc. The stock return behavior has been subjected to extensive research in the past and it has been observed that the return of Monday is significantly negative and Friday experienced high positive returns. This observation is generally referred to as 'Day-of-the-Week-Effect' or 'The-Week-End-Effect'.

It is observed that the absence of identical mean returns across all days of the week may be attributed to amongst many other factors, Asymmetrical Information Arrival on each day of the week. For instance, as the stock market closes during the week end, (Saturday and Sunday), the information accumulation and processing take place on Monday and, thereby, wide price swings may be noticed on Monday. The researchers also documented that the bad news is generally released after the market closure on Friday (Patel and wolfson, 1982; penman, 1987; and Dyl and Maberly, 1988). If Investors have the ability to comprehend the price swings and earn extra-normal returns, they counter the principle of market efficiency. In addition, any systematic pattern of price changes across days of the week may also help some trading strategy to earn abnormal returns. Against this background, this paper attempts to focus on stock returns variability across day of the week and to find out the existence of Week-End Effect in NSE.

REVIEW OF LITERATURE

A brief review of select studies has been presented here to identify the research gap and suitability of methodologies to be employed in the proposed area of research. **Amanulla.S And Thiripalraju (2001)**, tested the carry - forward transactions in different periods in order to find out whether they have any impact on Week-End Effect in Indian Stock Market during the study period (January 1990 to December 1999).This Study further found that there was consistent positive returns on Wednesday and negative returns on Tuesday due to possible impact of the Week End Effect. **Goloka C Nath and Manoj Dalvi (2005)** used both high frequency and end of day data for the benchmark index (S&P CNX Nifty) during the study period of 1999 to 2003 Using regression with bi-weights and dummy variables, the study found that before the introduction of Rolling Settlement in January 2002, Monday and Friday were significant days. However, after the introduction of the Rolling Settlement, Friday alone had become significant. This indicated that Fridays, beings the last day of the week, were significant after the Rolling Settlement. Mondays were found to have higher standard deviations, followed by Fridays. The existence of market inefficiency was clear. **Hareesh Kumar.V and Malabika Deo(2007)** analyzed the efficiency of Indian Stock Market by using S&P CNX 500 Index. They found out the presence of Day of the Week Effect in the Indian Stock Market, which affected both the stock returns and volatility, thereby proving the Indian Stock Market to be inefficient. **Nageswari.P and Selvam.M (2010)** examined the Day-of-the Week Effect on the Indian

Stock Market after the introduction of the Compulsory Rolling Settlement. It was found that the Mean Returns were positive for all days of the week, highest being on Friday for all the indices and the day of the week pattern did not appear to exist in the Indian Stock Market. **Ramesh Chander, Kiran Mehta and Renuka Sharma (2008)** tested the pattern in order to find out whether it yields abnormal returns consistently for any specific day of the week. The study found that there was a lowest return on Friday under the BSE in the Pre-Rolling Settlement Period. After the Compulsory Rolling Settlement Period, the Friday returns were the highest and those on Monday were the lowest. This was credible evidence for the Day-of-the-Week Effect. **Ravi Anshuman.V and Ranadev Goswami (2000)** examined the Week-End Effects by using equally weighted portfolio constructed from 70 stocks listed on the BSE during the study period (April 1991 - March 1996). The Study evidenced the (heteroskedasticity adjusted) excess positive returns on Friday and excess negative returns on Tuesday. The excess (negative) returns on Tuesdays were largely due to the returns under the Post Rolling Settlement. The excess (positive) Friday returns were related to firm size. Interestingly, both Badla and Non-Badla Stocks experienced similar day-of-the-week effects. **Selvarani.M and Leena Jenefa (2009)** analyzed the trends in annual returns and daily returns. A set of parametric and non-parametric tests were employed to test the equality of mean returns and standard deviations of the returns. It was found that in the NSE, there was strong evidence of April and January effect. After the introduction of the Rolling Settlement, Friday had become significant. As far as the Day Effect is concerned, Tuesday Effect was more prevalent than Monday Effect.

The above literature provides an overview of different Valuation Models associated with the valuation of Day of the Week Effects in Indian Stock Markets. An attempt has been made in this Study to analyze **"Re-examination of the Day of the Week Effects in Indian Stock Market".**

STATEMENT OF THE PROBLEM

It is a proven fact that in India, investments and returns are usually higher on Fridays. On the other hand, Investors craft their response on Mondays on a negative note. Therefore, investments and returns profiles are very low on Mondays. An efficient stock market ensures rapid information access to facilitate instantaneously processing the information which would reflect on security prices. The returns constitute only one part of the decision making process. Another part that must be taken into account while making investment decision is the calculation of risk or volatility of returns. It is important to know whether there are variations in volatility of stock returns by the Day-of-the Week and whether high (low) returns is associated with a correspondingly high (low) volatility for a given day. If the investors can identify a certain pattern in volatility, then it would be easier for the investors to make investment decisions based on both returns and risk. Hence an attempt has been made in the present study to re-examine of the Day-of-The Week Effect in the Indian stock market by using the S&P CNX 500 Nifty.

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OBJECTIVES OF THE STUDY

The following are the objectives of the present study

* To examine whether the Day of the Week Pattern still exists in the Indian Stock Markets.
* To know the relationship between the returns of different trading days of the week.
* To know the stationarity of the selected index in NSE:
* To summarize the findings of the Study.

HYPOTHESIS OF THE STUDY

The present study tested the following two null hypotheses

NH1- There is no significant difference in the returns under different trading days of the week.

NH2- There is no stationarity in the returns of selected indices.

METHODOLOGY OF THE STUDY

a) Sample Selection

. The S & P CNX 500 is India's first broad based benchmark of the Indian Capital Market. It represents about 92.57% of total market capitalization and about 91.17% of the total turnover on the NSE as on Sept 30, 2009. S&P CNX 500 Index was taken as the sample index

b) Sources of Data

The required information for the present Study were collected from the www.nseindia.com and PROWESS, which is corporate database maintained by CMIE.

c) Period of the Study

The period of study covers eight years from 1st January 2002 to 31st December 2009.

TOOLS USED FOR ANALYSIS

In this study, independence of return series was investigated for S&P CNX 500 index and the returns were calculated as follows,

i) Returns

To compute daily returns for each of the index series as the continuously compounded daily percentage change in the Closing value index as given below:

$$R_t = \ln (I_t/I_{t-1})*100$$

Where,

R_t = Daily return on the Index (I),

ln = Natural log of underlying market series (I),

I_t = Closing value of a given index (I) on a specific trading day (t), and

I_{t-1} = Closing value of the given index (I) on preceding trading day (t-1).

ii) Descriptive Statistics

In this part, Statistics of the daily return, Standard Deviation, Skewness, kurtosis and Jerque-Bera were used for the purpose of analysis.

iii) Kruskall-Wallis Test

The Kruskall-Wallis Test is an appropriate one for testing the data typified of non-normality, heteroskedastic variance like security returns (Jason, 1996). The Kruskall-Wallis Test is employed for testing the equality of mean returns for different days of the week. It ranks the entire set of observations higher the value, higher the rank and vice-versa and then arranges them into nj x 5 matrix where nj represent the rank of the return and columns represent the Day-of-the-Week - Monday through Friday. The formula for calculating the Test Statistic 'H' is as under:

$$H = \frac{12}{N(N+1)} X \sum_{J=1}^{5} \frac{R2j}{nj} - 3(n+1) \quad \text{----------} \quad \text{(ii)}$$

where

Rj = Sum of the Ranks in the jth Column

nj = Number of Cases in the jth Column,

N = Sum of Observations in all the Columns.

iv) Correlation

Correlation is the degree of relation between two variables. To know the relationship between ratios, the following equation is used:

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{n(\sum x^2 - (\sum x)^2)(n\sum y - (\sum y)^2)}} \quad \text{-----} \quad \text{(iii)}$$

Where,

N = Number of observations

Σx = Dependent variables

Σy = Independent variables

v) Multiple Regression Analysis

A linear multiple regression models has been used to measure the combined effects of independent variables on dependent variables. The general form of multiple linear equations is

$$P = b_o + b_1 x_1 + b_2 x_2 + b_3 x_3 + \ldots\ldots + b_n x_n \text{ ---------- (iv)}$$

Where,

P = Dependent variable

x_1, x_2, x_3 = Independent variables (Monday, Tuesday, Wednesday, Thursday, Friday)

b_0 = Regression constant

$b_n X_n$ = Regression coefficient of independent variables

vi) Unit Root Test:

The most famous Unit Root Test is Augmented Dickey-Fuller Test. Another Test is the Phillips -Perron Test. Both these tests use the existence of a unit root as the null hypothesis.

a) Augmented Dickey-Fuller Test

Augmented Dickey-Fuller Test (ADF) is a test for a unit root in a time series sample. It is an augmented version of the Dickey-Fuller Test for a larger and more complicated set of time series models. The Augmented Dickey-Fuller (ADF) statistic, used in the Test, is a negative number. The testing procedure for the ADF Test is the same as for the Dickey-Fuller Test but it is applied to the model

$$\Delta y_t = \alpha + \beta t + \gamma y_{t-1} + \delta_1 \Delta y_{t-1} + \cdots + \delta_p \Delta y_{t-p} + \varepsilon_t \text{ --------- (v)}$$

Where ? is a constant, ? the coefficient on a time trend and p the lag order of the autoregressive process. Imposing the constraints $\alpha = 0$ and $\beta = 0$ corresponds to modeling a random walk and using the constraint $\beta = 0$ corresponds to modeling a random walk with a drift.

RESULTS AND ANALYSIS OF THE STUDY

The results of the following tests are presented.

1. Analysis of Descriptive Statistics
2. Results of Kruskall-Wallis Test
3. Results of Cross Correlation Test

4. Results of Multiple Regression Test

5. Results of Unit Root Test

1. Analysis of Descriptive Statistics for S& P CNX 500 Based Daily Returns

Table-1 presents the results of Descriptive Statistics of Standard Deviation, Skewness, Kurtosis and Jerque-Bera for S&P CNX 500 based daily returns during the study period from 2002 to 2009. It is revealed that the S& P CNX 500 Index earned maximum daily mean returns of 0.2062 on Friday, with a Standard Deviation of 1.5682. The highest value (2.0989) for Standard Deviation was recorded on Monday and the least Standard Deviation Value of 1.5289 was recorded on Thursday. This clearly indicates that the market was more volatile on Monday and least volatile on Thursday during the study period. The Kurtosis measure of returns distribution was leptokurtic for all days of the week, showing the highest value (15.31) on Monday. The return distribution was positively skewed for Monday and Tuesday and negatively skewed for other trading days of the week. The coefficient of Jerque-Bera was significant at 1 percent level for all trading days and this implies that the returns were asymmetric and did not conform to normal distribution during the study period.

2. Results of Kruskall-Wallis Test of S&P CNX 500 Index

The analysis of Kruskall-Wallis Test for S& P CNX 500 Index is also given in **Table-1.** The Kruskall-Wallis Statistics Value of 6.979 was lower than the Table Value of 9.49 at 5% level of significance for 4 degrees of freedom. Hence the null hypothesis, "there is no significant difference in the mean returns among the trading days of the week, cannot be rejected In other words, the Day of the Week Pattern did not appear to exist for S& P CNX 500 Index.

3. Results of Cross Correlation Test of S&P CNX 500 Index

The results of Correlation Test for S& P CNX 500 Index are given in **Table-2.** From the analysis of the above Table, it is observed that during the trading days of the week, the correlation coefficient between Monday and Friday was 0.178 (significantly positive) and the p-value for two-tailed test of significance was 0.0003. It indicates the fact that there was strong positive correlation coefficient between Monday and Friday at the significance level of 0.01. The above Table also reveals the fact that there was significant negative correlation coefficient between Tuesday and Friday at -0.112 and the p- value for two-tailed test of significance was 0.0262 at 5% significance level. There was negative correlation coefficient between returns of Monday-Tuesday, Tuesday-Wednesday, Tuesday-Friday and Wednesday-Friday. It was observed that there was no significant relationship between the returns of other trading days of the week. Hence the null hypothesis "There is no significant relationship between the returns of different trading days of the week," is partially accepted.

4. Results of Multiple Regressions Test to test Seasonality (with Monday as Benchmark)

The Multiple Regression Analysis was carried out between the dependent variable namely, the returns of Monday and independent variables (returns of Tuesday, Wednesday, Thursday and Friday). In this analysis, the Day of the Week Effect that influenced the four independent variables was considered. The main objective of this analysis was to identify the day which had most influence on the dependent variable.

Table-3 indicates the results of regression model to test seasonality (with Monday as Benchmark) along with the result of coefficient of variables. From the above Table, it is clearly observed that only one variable, namely, Friday's returns was significant at 1% level with a value of 0.01. It means that variable (Friday's returns) influenced the dependent variable (Monday's) significantly. The other variables did not influence the Monday's returns. The coefficient returns of Friday (B=.209) were positive, indicating that the direction of Monday is positively correlated with Friday. Hence the null hypothesis, namely "There is no significant relationship between the returns of different trading days of the week" is partially accepted.

The adjusted R Square gives more accurate information about the fitness of the model. An adjusted R Square value of 0.31 implies that independent variables in the model influenced 31% of the variance in the dependent variable (Monday).

4 (i). Results of Multiple Regression Model to test Seasonality (with Friday as Benchmark)

The results of multiple regressions to test seasonality (with Friday as Benchmark) are given in **Table -4**. It is clearly observed that only two variables (Monday Tuesday returns) was significant at 1% and 5% level with a value of 0.01and .040 respectively. It is found that the variables (Monday &Tuesday returns) influenced the dependent variable (namely Friday's return) significantly. The other variables (returns of Wednesday and Thursday returns) failed to influence the Friday's returns. Hence the null hypothesis, "There is no significant relationship between the returns of different trading days of the week," is partially rejected.

5. Results of Unit Root Test for S&P CNX 500 Index

Table-5 represents the results of Unit Root Test for S&P CNX 500 Index. As stated earlier, Augmented Dickey-Fuller (ADF) Test was employed to determine the stationary of the variables. The above Table clearly indicates that the values of the test statistics are higher than the value of test critical (i.e. Monday test statistic value is -6.6713 and test critical value is-3.4469, at 1% significant level). The returns of the S&P CNX 500 Index for Monday, Tuesday, Wednesday, Thursday and Friday returns were stationary at 1% level. The test statistic values were satisfied at level itself. Hence the null hypothesis, "There is no stationary in

the returns of different trading days of the week," is rejected and the alternative hypothesis. i.e. "the returns of the week days are stationary in Indian Stock Market" is accepted.

Summary of Findings and Suggestions of the Study

The following are the important findings and suggestions of the Study

- The Study found that the highest mean returns was earned on Friday and lowest mean return on Tuesday during the study period. Therefore, it is suggested that the investors would enjoy good returns on Friday. The Friday is the best day to invest in Indian Stock Market.
- The Study also found that the highest value of Standard Deviation (2.098) was recorded on Monday and least value of Standard Deviation (1.528) on Thursday. This indicates that the Indian stock market was more volatile on Monday and least volatile on Thursday during the study period. The Indian Investors are advised to take note of this pattern and develop appropriate investment strategy.
- The Kruskall-Wallis Test Statistic Value was lower than the Table Value and this clearly indicates that Day of The Week pattern did not appear to exist for S& P CNX 500 Index.
- During the study period, the Kurtosis measure of returns distribution was leptokurtic for all days of the week and the highest (15.31) was recorded on Monday.
- It is further observed that the returns distribution was positively skewed for Monday and Tuesday and negatively skewed for Wednesday, Thursday and Friday.
- There was significant positive correlation between the returns of Monday-Friday, and no significant positive correlation between the returns of other trading of the week.
- There was significant negative correlation between the returns of Tuesday-Friday, for S&P CNX 500 Index during the study period.
- The Study recorded negative correlation between the returns of Monday-Tuesday, Tuesday -Wednesday and Wednesday-Friday.
- The Multiple Regression Analysis reveals that returns of Monday were highly influenced by Friday, and Friday returns were highly influenced by Monday for S&P CNX 500 Index during the study period.
- The analysis of Augmented Dickey-Fuller (ADF) Test clearly indicated stationary at 1% level of significance.
- The test statistic values were satisfied at level itself. The returns of the week days are stationary in the Indian Stock Market (NSE).

Conclusion

The present Study investigated the Day of -the- Week Effect on stock returns for S&P CNX 500 Index of NSE. The Study found that there was a maximum return on Friday. The mean returns of all trading days of the week were positive. The returns in the stock market are not independent across different trading days of the week. Hence Investors should be cautious enough to exploit the benefit that he/ she may earn from the strategy i.e., to buy the securities on the day with the lowest mean returns and sell them on a day with the highest mean returns. The Study also provides evidence that the market was not able to price the risk appropriately as higher returns were possible by taking less risk and this indicates market inefficiency. The Day of the Week Pattern did not appear to exist in the Indian Stock Market. The findings of this Study would possibly help in understanding and explaining such seasonality for the Indian Stock Markets.

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Table - 3

Result of Multiple Regression Model to Test Seasonality (with Monday as Benchmark)

Week days	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.014	.106		.129	.897
Tuesday	-.072	.067	-.054	-1.075	.283
Wednesday	.080	.067	.060	1.206	.229
Thursday	.054	.069	.039	.782	.435
Friday	.209	.060	.175	3.495	.001
R Square			Adjusted R Square		
.041			.031		

Source: Computed from PROWESS,
Dependent Variable: Monday
Predictors: (Constant), Tuesday, Wednesday, Thursday, Friday.

Table-4

Results of Multiple Regression Model to Test Seasonality (with Friday as Benchmark)

Week days	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.210	.088		2.382	.018
Monday	.146	.042	.174	3.495	.001
Tuesday	-.115	.056	-.102	-2.056	.040
Wednesday	-.071	.056	-.064	-1.278	.202
Thursday	.004	.057	.004	.078	.938
R Square			Adjusted R Square		
.046			.036		

Source: Computed from PROWESS,
Dependent Variable: Friday
Predictors: (Constant), Monday, Tuesday, Wednesday, Thursday

Table-5

Results of Unit Root Test for S&P CNX 500 Index during 2002-2009

Weekday	Augmented Dickey-Fuller test statistic	Significant level	ADF Level	1st Difference	2nd Difference
Monday	Test statistic		-6.6713*	-8.9277*	-9.5635*
	Test critical values:	1% level	-3.4469	-3.4473	-3.4474
		5% level	-2.8688	-2.8689	-2.8690
		10% level	-2.5707	-2.5708	-2.5708
Tuesday	Test statistic		-13.3632*	-8.9604*	-10.5219*
	Test critical values:	1% level	-3.4467	-3.4472	-3.4474
		5% level	-2.8686	-2.8689	-2.8689
		10% level	-2.5706	-2.5707	-2.5708
Wednesday	Test statistic		-12.7986*	-8.1746*	-9.2375*
	Test critical values:	1% level	-3.4465	-3.4472	-3.4473
		5% level	-2.8686	-2.8689	-2.8689
		10% level	-2.5706	-2.5707	-2.5708
Thursday	Test statistic		-18.9363*	-8.4705*	-10.7054*
	Test critical values:	1% level	-3.4467	-3.4474	-3.4475
		5% level	-2.8686	-2.8690	-2.8690
		10% level	-2.5706	-2.5708	-2.5708
Friday	Test statistic		-9.4205*	-10.1383*	-10.8394*
	Test critical values:	1% level	-3.4470	-3.4474	-3.4476
		5% level	-2.8688	-2.8689	-2.8691
		10% level	-2.5707	-2.5708	-2.5708

Source: Computed from PROWESS,

*Significant at 1% significance level.