

Seasonal return and firm size effect in the Malaysian Stock Market

Abstract

This study examines the existence of seasonal return and firm-size effect in the Malaysian stock market. The results reveal that there is evidence of the January effect, the Chinese New Year effect, and the reverse August effect. Since there is no capital gain tax in Malaysia, the tax loss selling hypothesis cannot explain the January effect. Instead, the anomaly may be best explained by the market integration hypothesis in view that the January effect is also a worldwide phenomenon. The higher return observed in February indicates the presence of the Chinese New Year effect, which is attributed to the dominant role of the ethnic Chinese investors in the Malaysian stock market. Both effects are more robust in smaller companies as compared to larger firms indicating the existence of the firm size effect. The reverse August effect is reflected by the negative return in August which is due to the significantly lower trading activities during the month.