

Calendar anomalies in Pakistan stock market

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Anomalies are those irregularities that cannot be defined by the standard finance theories. In this paper, we examined the existence of an intra-month effect and weekend effect in stock returns of Pakistan stock exchange. Data has been gathered from KSE-100 index which is largest and most liquid stock market in Pakistan. Daily stock index data has been gathered from November 2, 1991, through December 31, 2014, which approximates to about 23 years data. Returns on this data were calculated and calendar anomalies were examined. Our results show that there exists an intra-month effect. Similarly, the existence of the weekend effect in the stock market is also observed. Hence, Karachi stock market shows anomalous behavior in the returns.

Keywords: Calendar effects, day of the week effect, seasonality, anomalies.

1 Introduction

The anomaly is an irregularity which can be due to deviation from the common course or rule. In stock markets, the deviation of the group of stocks from the efficient market hypothesis (EMH) is known as an anomaly. By using different anomalous situations, an investor can earn an abnormal returns which are in contradictory to the assumptions of EMH. Anomalies in the stock markets cannot be ignored because of their huge impact on different stock markets all over the world. Anomalies can be of three types:

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