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Calendar anomalies in the Russian stock market

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Abstract

This research note investigates whether or not calendar anomalies (such as the January, day-of-the-week and turn-of-the-month effects) characterize the Russian stock market, which could be interpreted as evidence against market efficiency. Specifically, OLS, GARCH, EGARCH and TGARCH models are estimated using daily data for the MICEX market index over the period Sept. 1997–Apr. 2016. The empirical results show the importance of taking into account transactions costs (proxied by the bid-ask spreads): once these are incorporated into the analysis, calendar anomalies disappear, and therefore, there is no evidence of exploitable profit opportunities based on them that would be inconsistent with market efficiency.
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1. Introduction

There is a large body of literature testing for the presence of calendar anomalies (such as the "day-of-the-week", "day-of-the-month" and "month-of-the-year" effects) in asset returns. Evidence of these types of anomalies has been seen as inconsistent with the efficient market hypothesis (EMH — see Fama, 1965), since it would imply that trading strategies that exploit them can generate abnormal profits. However, a serious limitation of many studies on this topic is that they neglect transaction costs: broker commissions, spreads, payments and fees connected with the trading process may significantly affect the behavior of asset returns. Calendar anomalies might disappear once transaction costs are taken into

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account, the implication being that in fact there are no exploitable profit opportunities based on transaction costs.

The present study examines calendar anomalies in the Russian stock market by incorporating transaction costs in the estimated models (following Gregoriou et al., 2004 and Caporale et al., 2016), and therefore, it expands previous studies on anomalies in this market, such as Compton et al. (2013), not taking into account transaction costs. Specifically, four models are estimated: OLS, GARCH, TGARCH and EGARCH.

The structure of the note is as follows: Section 2 briefly reviews the literature on calendar anomalies; Section 3 describes the data and outlines the methodology; Section 4 presents the empirical findings; Section 5 offers some concluding remarks.

2. Literature review

The existence of a January effect had already been highlighted by studies such as Rozeff and Kinney (1976) and Lakonishok and Smith (1988) using long series to avoid the problems of data snooping, noise and selection bias, and finding evidence of various calendar anomalies, namely January, day-of-the-week and turn-of-the-month (TOM) effects. Thaler (1987) reported that the January effect mainly characterizes shares of small companies, while Kohers and Kohli (1991) concluded that it is also typical of shares of large companies. Cross (1973) was one of the first to identify a day-of-the-week effect. Gibbons and Hess (1981) found the lowest returns on Mondays and the highest on Fridays. Mehdian and Perry (2001) showed a decline of this anomaly over time.

Most existing studies, such as the ones mentioned above, concern the US stock market. Only a few focus on emerging markets. For instance, Ho (2009) found a January effect in 7 out of 10 Asia-Pacific countries. Darrat et al. (2013) analyzed an extensive dataset including 34 countries and reported a January effect in all except three of them (Denmark, Ireland, Jordan). Yalcin and Yucel (2003) analyzed 24 emerging markets and found a day-of the-week effect in market returns for 11 countries and in market volatility in 15 countries. Compton et al. (2013) focused on Russia and discovered various anomalies (January, day-of-the-week and TOM effect) in the MICEX index daily returns.

Transaction costs were first taken into account by Gregoriou et al. (2004), who estimated an OLS regression as well as a GARCH (1,1) model and concluded that calendar anomalies (specifically, the day-of-the-week effect) disappear when returns are adjusted using transaction costs. More recently, Caporale et al. (2016) reached the same conclusion in the case of the Ukrainian stock market using a trading robot approach.

Damodaran (1989) argued that the main reason for the weekend effect (low returns on Mondays and high returns of Fridays) is the arrival of negative news at the beginning of the week. However, Dubois and Louvet (1996) found that in other markets such as France, Turkey, Japan, Singapore and Australia, the highest negative returns appear on Tuesdays; this may be explained by the fact that these markets are influenced by negative news in the U.S. with a one-day lag. Keef and McGuinness (2001) suggested that the settlement procedure could be the explanation for negative returns on Mondays (see also Raj and Kumari, 2006); however, these might differ across countries. Rystrom and Benson (1989)

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