

QUANTVIEW

MIDF EQUITY STRATEGY | 04 NOV 2016

WEEKEND/DAY OF THE WEEK EFFECTS : OUR TOP 3 PICKS

- The “Weekend Effect” describes the tendency of stock prices to underperform on Mondays, plausibly due to negative news about a company or its sector, macro economy results, negative overseas news or regulatory related events released late during the prior Friday or on weekend, resulting in the bad news to be reflected in depressed stock prices on Mondays.
- The “Day of the Week Effect” on the contrary is due to the release of good news generally between early to midweek which is reflected in relatively higher stock price returns in the period from Tuesdays to Fridays.
- We list below our top 3 stock picks to take advantage of the effects:
 - IOI Corporation (BUY; TP: RM5.05)
 - CIMB Group (BUY; RM5.50)
 - Hong Leong Financial Group (BUY; RM17.50)

04 November 2016 | Strategy - Quant

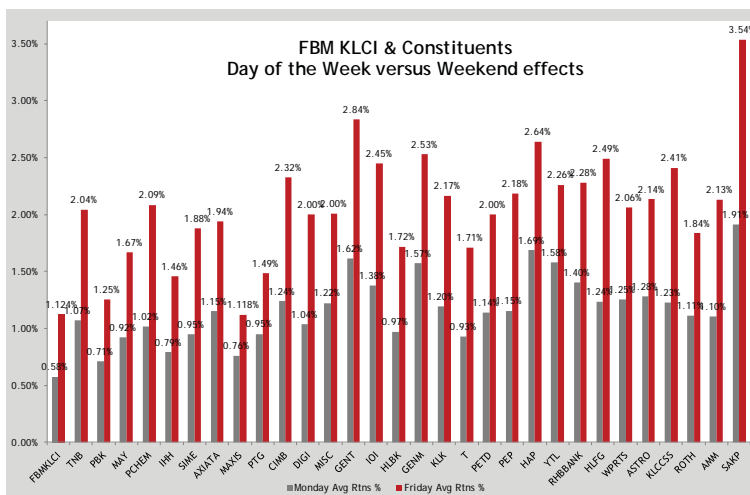
Weekend/Day of the Week effects

Buy Mondays & Sell Fridays

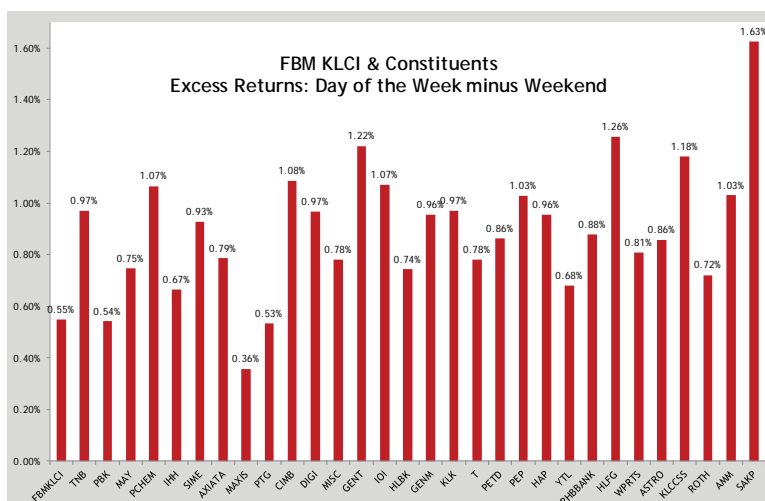
FBM KLCI: 1,648.08 points

2016 Year-end Target: 1,750 points

- **Weekend effect.** The weekend effect describes the tendency of stock prices to underperform on Mondays. This is plausibly due to negative news about a company or its sector, macro economy results, negative overseas news or regulatory related events released late during the prior Friday or on weekend. As a result, the bad news is reflected in depressed stock prices on Mondays.
- **Day of the week effect.** On the contrary, it is also argued that firms and governments generally release good news between early to midweek which is reflected in relatively higher stock price returns in the period from Tuesdays to Fridays hence given rise to the day of the week effect.
- **All of FBM KLCI current constituents exhibited Weekend/Day of the week effects...** Based on our 10-year quantitative studies, all of the 30 FBM KLCI current constituent stocks generally performed better during the period from Tuesdays to Fridays, i.e. day of the week effect, as compared to on Mondays, i.e. weekend effect.



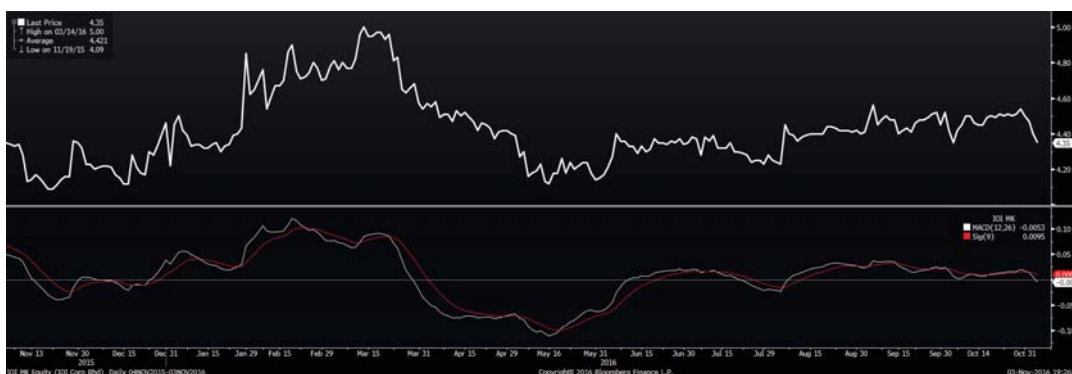
- ...with SapuraKencana generating the highest excess return. Moreover, as per the results of our analysis, the FBM KLCI exhibited an average excess return (day of the week minus weekend) of +0.55% while SapuraKencana registered the best average excess return of +1.63% among all FBM KLCI current constituents.



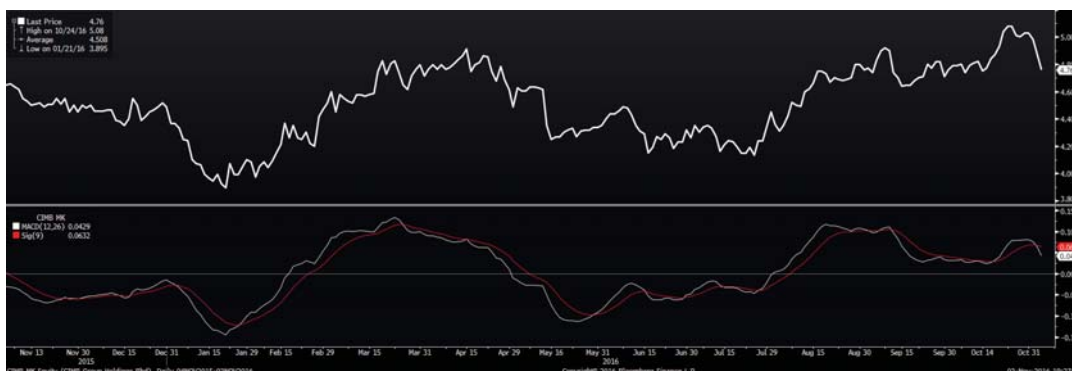
RECOMMENDATION

- Buy on Mondays and sell on Fridays. Predicated on such returns behaviour, one simple trading strategy would be to purchase stocks on Monday or Tuesday and sell them on Friday, holding cash over the weekend.
- Top 3 picks. Based on (i) our ranked quantitative findings (refer to APPENDIX for more details), and supported by (ii) our fundamental views (i.e. stocks with positive expected share price return and BUY recommendation), we list below our top 3 stock picks to take advantage of the day of the week effect:

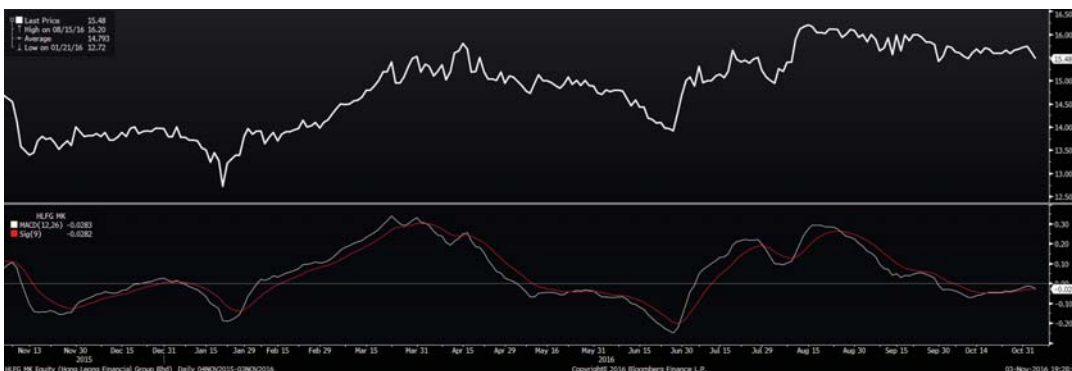
» IOI Corporation (BUY; TP: RM5.05)



» CIMB Group (BUY; TP: RM5.50)



» Hong Leong Financial Group (BUY; TP: RM17.20)



- FBM KLCI year-end targets. We reiterate our FBM KLCI 2016 year-end target at 1,750 points which equates to PER16 of 17.5x as well as our 2017 year-end target of 1,830 points which equates to PER17 of 17.0x.



APPENDIX

Macro Strategy	:	Seasonal Effects / Calendar Anomalies
Strategy Types	:	January Effect, Turn of the Month Effect, Half Month Effect, Weekend Effect, Day of the Week Effect, Holiday Effect, End of Quarter Effect.
This Strategy	:	Weekend Effect, Day of the Week Effect
Strategy Concept	:	The weekend effect describes the tendency of stock prices to either underperform or decline on Mondays, meaning that closing prices on Monday are not substantially higher or outright lower than closing prices on the previous Friday. For some reasons, the price return performance on Monday has been consistently lower than every other days of the week. In contrast, the day of the week effect describes the tendency of stock prices to outperform in the period from Tuesdays to Fridays.
Strategy Studies	:	<p>Wealth of studies regarding the weekend effect suggest that stock prices generally underperformed on Mondays plausibly due to negative news about a company or its sector, macro economy results, negative overseas news or regulatory related events released late during the prior Friday or on weekend. However, the theoretical explanation for the common observation of seasonal patterns in capital markets has been controversial. Some of the explanations offered for the existence of such anomalies also suggest that firms and governments generally release good news between Monday and Friday, but wait until the weekend to release bad news. As a result, bad news is reflected in depressed stock prices on Mondays. On the contrary, good news is reflected in higher stock prices in the period from Tuesdays to Fridays hence given rise to the day of the week effect.</p> <p>Other explanations given for the occurrence of these calendar anomalies include market settlement procedures (Gibbons and Hess, 1981; Lakonishok and Levi, 1982), bid-ask spread bias (Keim and Stambaugh, 1984), and new information at the market close (Damodaran, 1989; Lkonishok and Maberly, 1990; and Patell and Wolfson, 1982).</p> <p>Ng et al. (2011) found strong evidence of the day of the week effect in the daily percentage returns of seven Malaysian sectoral indices, including (i) construction, (ii) consumer products, (iii) finance, (iv) industrial products, (v) plantation, (vi) property, and (vii) trading/services sectors. This suggests the stock market in Malaysia is not fully efficient and thus fund managers and investors can still benefit from these anomalies.</p> <p>An investigation into the day of the week effect found Monday and Tuesday relative returns to be significantly negative. This finding conforms to that of other markets especially with the Japanese and Australian bourses. The lowest mean return for the Malaysian market was found to occur on Tuesday, and both Monday and Tuesday relative returns were significantly negative. It was also found that the average return on Friday was highest over all other trading days. This study partly supports the contention that the Malaysian stock market is weakly efficient as documented by Barnes (1986) and Othman (1987). The presence of the weekend effect implies that the market is not able to absorb all available information into share prices on Friday, as we assume good news is leaked while the market is still open, while bad news after the closure of the market is then reflected on Monday's price. If the market had been adequately efficient then all good and bad news should have been absorbed by the market into stock prices on Friday itself; and if good news exceed the bad news, the returns on stock prices may still be positive, and vice versa.</p>

Based on such return behaviour, one simple investment strategy would be for an individual to purchase the stocks/market portfolio every Monday or Tuesday and sell these investment positions on Friday, holding cash over the weekend. This is currently being observed in our market but further research is warranted to find out whether the transaction costs incurred make such an investment strategy feasible to investors.

Depending on the magnitude of the news, usually the impact has dissipated by Tuesday. Fund Managers should be aware of this yield enhancement tactics for their portfolio by being ready to purchase these beaten down stocks on Monday or Tuesday and selling them (i) on days where returns are usually better, on days such as Friday, or (ii) reach their required target price or percentage profit. Thus, fundamentally strong stocks that fell due to herd instinct (of so called bad news on a particular stock) should be seen as an opportunity to accumulate as these stocks are usually considered to have come down to a more reasonable value. Furthermore, they should also take profits on Fridays when bad news are released and buy back at lower price or rotate to other stocks on Monday or Tuesday at better values.

Two Malaysia-centric studies have been done by:-

1. Annuar Md. Nasir, Shamsheer Mohammad, Mohamad Ali Abdul Majid Faculty of Economic and Management, Universiti Pertanian Malaysia titled "Stock Returns and the Weekend Effect: the Malaysian Experience, and
2. Mansor H. Ibrahim, Assistant Professor, Department of Economics, International Islamic University Malaysia titled "New Evidence on the Day of the Week Effect in the Malaysian Stock Market ".

This Study rationale	:	Based on the abundance of studies available and especially the 2 studies mentioned above, both the weekend and day of the week effects exist in most market. Thus, our own study was made to test whether the individual stocks in the FBM KLCI Index exhibit the same phenomena which will, in aggregate, be reflected in the index. This study is also intended to highlight the profit potential available to individual investors and professional fund managers.
Findings Overview	:	Weekend Effect and Day of the Week Effect strategies can be applied in Bursa Malaysia
Back Test Period	:	10 Years
Results Tabled	:	Summary based on 10 Years daily data
Period Start	:	30-Oct-06
Period End	:	25-Oct-16
Period	:	Daily
Index Observed	:	1 - FBM KLCI Index
Stocks Observed	:	30 - FBM KLCI Components
No. of observations	:	69,034
Ave. observation/stock	:	2,301

Index / Stocks	No. + Ve Rtns												
	Monday					Friday					Monday Friday Variance		
	No. of Days	No. Observation	Avg % Rtns	Max	Min	No. of Days	No. Observation	Avg % Rtns	Max	Min	Avg Return	MAX Return	MIN Return
FBMKLCI	480	216	0.58%	4.26%	(9.98%)	493	234	1.124%	6.80%	(8.88%)	0.55%	2.54%	1.10%
TNB	480	177	1.07%	6.87%	(16.29%)	493	185	2.04%	10.64%	(11.78%)	0.97%	3.76%	4.51%
PBK	480	185	0.71%	5.33%	(6.59%)	493	217	1.25%	8.30%	(9.59%)	0.54%	2.97%	(3.00%)
MAY	478	198	0.92%	8.93%	(6.20%)	493	199	1.67%	13.41%	(16.57%)	0.75%	4.48%	(10.37%)
PCHEM	284	111	1.02%	4.21%	(9.30%)	293	111	2.09%	12.07%	(10.26%)	1.07%	7.86%	(0.96%)
IHH	428	163	0.79%	7.13%	(8.07%)	438	174	1.46%	8.08%	(7.72%)	0.67%	0.94%	0.35%
SIME	429	169	0.95%	7.13%	(15.72%)	439	175	1.88%	10.76%	(13.06%)	0.93%	3.63%	2.66%
AXIATA	406	141	1.15%	10.49%	(11.58%)	419	178	1.94%	14.26%	(17.05%)	0.79%	3.76%	(5.46%)
MAXIS	335	133	0.76%	7.65%	(3.54%)	338	137	1.118%	4.79%	(10.54%)	0.36%	(2.86%)	(7.00%)
PTG	480	178	0.95%	6.97%	(7.87%)	493	201	1.49%	8.70%	(7.34%)	0.53%	1.73%	0.53%
CIMB	478	201	1.24%	9.29%	(14.76%)	491	189	2.32%	12.16%	(14.57%)	1.08%	2.87%	0.19%
DIGI	480	186	1.04%	6.23%	(15.74%)	492	208	2.00%	17.36%	(10.96%)	0.97%	11.12%	4.78%
MISC	477	175	1.22%	5.50%	(14.82%)	492	194	2.00%	14.89%	(9.08%)	0.78%	9.39%	5.74%
GENT	480	184	1.62%	10.18%	(7.52%)	493	200	2.84%	12.47%	(13.86%)	1.22%	2.29%	(6.34%)
IOI	477	185	1.38%	11.63%	(10.68%)	490	193	2.45%	13.18%	(24.82%)	1.07%	1.55%	(14.14%)
HLBK	480	174	0.97%	7.02%	(5.18%)	492	198	1.72%	10.50%	(13.36%)	0.74%	3.48%	(8.17%)
GENM	480	195	1.57%	7.83%	(8.80%)	493	191	2.53%	11.53%	(11.23%)	0.96%	3.70%	(2.43%)
KLK	480	195	1.20%	21.29%	(10.01%)	493	198	2.17%	12.36%	(18.85%)	0.97%	(8.93%)	(8.84%)
T	479	189	0.93%	4.53%	(9.13%)	492	206	1.71%	14.20%	(40.29%)	0.78%	9.67%	(31.17%)
PETD	480	193	1.14%	9.27%	(9.38%)	493	211	2.00%	14.06%	(12.08%)	0.86%	4.79%	(2.70%)
PEP	480	187	1.15%	6.41%	(7.21%)	493	212	2.18%	9.54%	(10.71%)	1.03%	3.14%	(3.50%)
HAP	479	183	1.69%	29.20%	(16.45%)	490	199	2.64%	12.97%	(16.00%)	0.96%	(16.24%)	0.45%
YTL	480	150	1.58%	6.95%	(13.38%)	493	197	2.26%	14.48%	(12.74%)	0.68%	7.53%	0.65%
RHBBANK	475	185	1.40%	8.76%	(8.93%)	489	193	2.28%	13.58%	(16.64%)	0.88%	4.82%	(7.70%)
HLFG	479	190	1.24%	6.76%	(6.42%)	491	184	2.49%	14.06%	(17.48%)	1.26%	7.30%	(11.06%)
WPRTS	145	53	1.25%	6.75%	(3.21%)	150	58	2.06%	8.28%	(6.13%)	0.81%	1.53%	(2.93%)
ASTRO	194	75	1.28%	4.24%	(7.98%)	198	73	2.14%	6.85%	(8.50%)	0.86%	2.61%	(0.53%)
KLCCSS	476	166	1.23%	6.57%	(5.23%)	489	195	2.41%	17.59%	(15.13%)	1.18%	11.02%	(9.91%)
ROTH	480	179	1.11%	4.96%	(5.34%)	493	202	1.84%	8.84%	(17.62%)	0.72%	3.88%	(12.28%)
AMM	478	194	1.10%	10.63%	(13.60%)	492	208	2.13%	10.25%	(12.23%)	1.03%	(0.38%)	1.38%
SAKP	213	69	1.91%	12.32%	(12.10%)	219	87	3.54%	15.72%	(15.34%)	1.63%	3.40%	(3.24%)

Findings

Overall : For the period reviewed, the results confirms the literatures and this study which found that most of the FBM KLCI Index component stocks also exhibited superior returns performance on day of the week (i.e. buy on Mondays/Tuesdays and sell on Fridays).

Individual stock returns:

1. The average daily returns for the FBM KLCI Index and the 30 component stocks returned better performance on Fridays compared to Mondays.
2. For the 10 year period reviewed, the Average daily returns for Friday for all components was 2.09% compared to Monday's average return 1.19%, a whopping 0.90% variance.
3. The table shows that all the Friday's index component average returns were better than Monday's average return.
4. Comparing the index's Friday average return of 1.12% to its 30 components, 29 stocks exhibit superior returns compared to the index except for Maxis, the only stock failing to beat the index with 1.11% return.
5. There were 14 stocks whose Friday average daily returns were better than the components Friday's average return of 2.09%. The top 5 stocks were SapuraKencana 3.54%, Genting 2.84%, Hap Seng 2.64%, Genting Malaysia 2.53% and Hong Leong Financial Group 2.49%.
6. Based on Average return Maximum for a day for a stock in the period reviewed, Friday's maximum average return was also higher at 3.54% (SapuraKencana) compared to Monday's Maximum average return of only 1.91% (also SapuraKencana) . The variance is also large being 1.63%. Likewise the Minimum average return for Friday was also higher at 1.12% and compared to Mondays Minimum Average with a paltry 0.71% return.
7. Likewise, focusing on the Friday returns in the 4th column of the appendix, the Friday Maximum (not the average) daily return was large at 11.86% compared to Monday's Maximum daily return of 8.70%, which is also a whopping 3.16% variance.
8. The Friday Maximum return for period reviewed was 6.80%, and as per the Friday Average return mentioned above, 29 stocks exhibit superior returns compared to the index except for Maxis the only stock failing to beat the index with 4.79% return.
9. There were 17 stocks whose Friday Maximum daily returns were better than the components Friday's Maximum return of 11.86%. The top 5 stocks were KLCC Stapled Grp 17.59%, Digi 17.36%, SapuraKencana 15.72% (cumulative 164% up to study period), MISC 14.89% and YTL 14.48%.
10. Only 4 stocks from the Monday Maximum Return were better than the Friday Maximum reviewed. This was Maxis 7.64%, KLK 21.29% (almost twice the Friday Maximum Return), Hap Seng 29.2% (more twice its Friday Maximum return), AMM 10.63% (just slightly better than its Friday Maximum of 10.25%

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