

27 October 2016 | Strategy-Quant

## Turn of the Month effect

*Our top 5 picks for Oct/Nov 2016 cycle*

**KLCI: 1,673.92 points**

**2016 Year-end Target: 1,750 points**

**Turn of the Month effect.** Wealth of studies regarding the “Turn of the Month” effect is statistically conclusive that stock prices generally rise during the last four days and the first three days of each month. Therefore it is possible to capture a substantial part of equity return only during this fraction of market time.

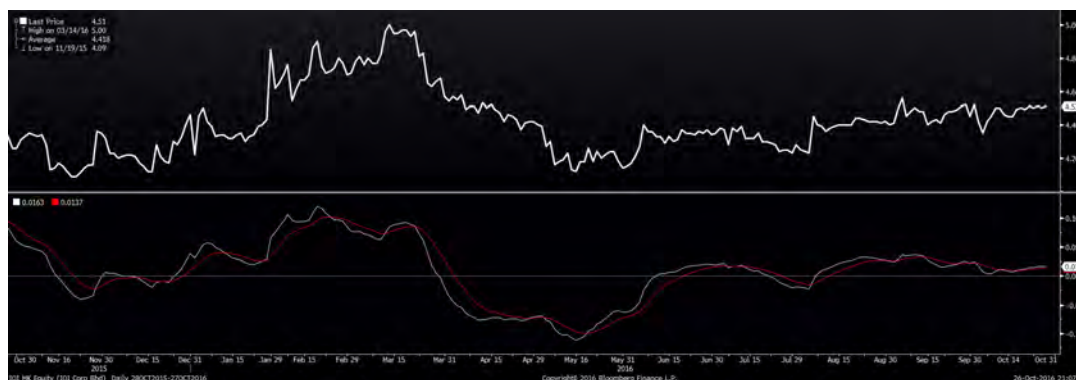
**87% of FBM KLCI constituents exhibited Turn of the Month effect.** Based on our 10-year quantitative studies, 26 out of the 30 FBM KLCI Index stocks performed better during the “Turn of the Month” strategic days as compared to the rest of the month days.

**The 4 Stocks that did not perform according to strategy,** in which the strategic days’ returns were less than the rest of the month’s return based on our 10-year studies, were Public Bank, IHH Health Care, Maxis and Hong Leong Bank.

### RECOMMENDATION

**Top 5 picks.** The “Turn of the Month” strategic days for the current cycle (Oct/Nov 2016) shall begin tomorrow. Based on our (i) quantitative findings (Refer to APPENDIX), and endorsed by our (ii) fundamental views (i.e. stocks with BUY recommendation), we list below our top 5 stocks recommendation for the current cycle of the turn of the month strategic days:

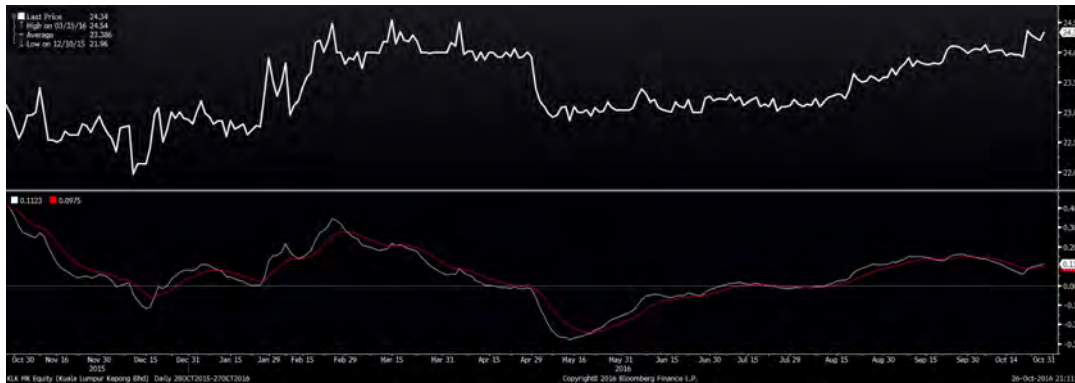
- IOI Corp (BUY; TP: RM5.05)



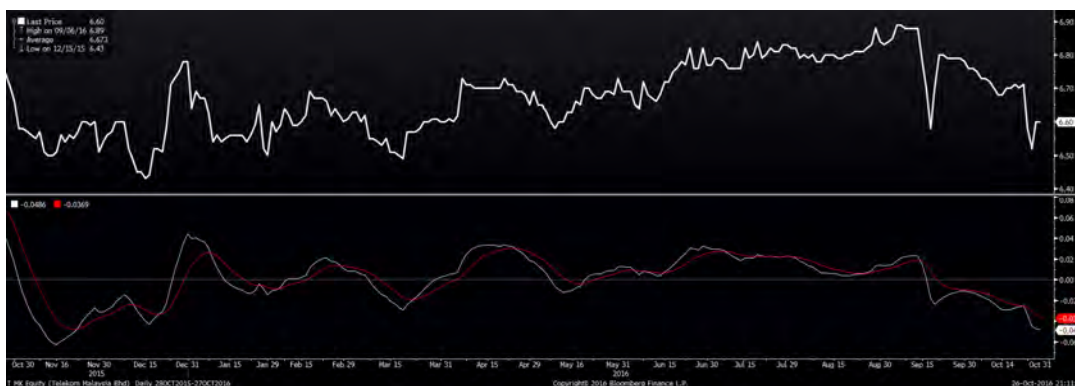
- AMMB Holdings (BUY; TP: RM5.10)



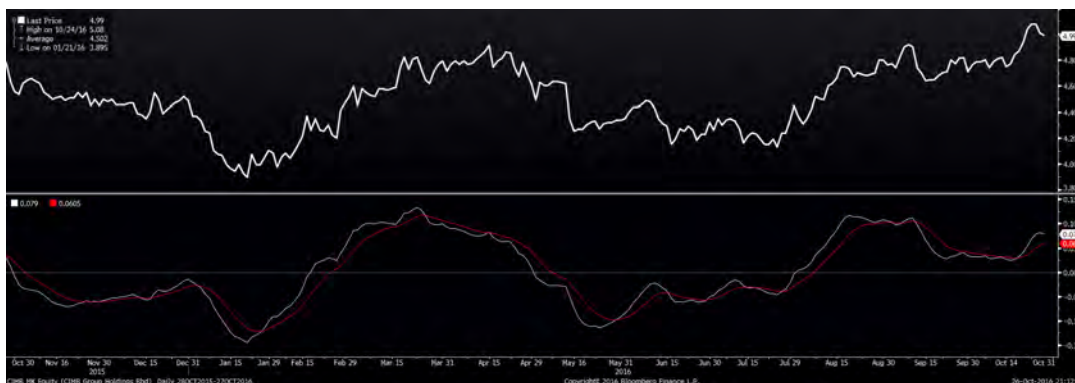
- KL Kepong (BUY; TP: RM27.38)



- Telekom Malaysia (BUY; RM8.18)



- CIMB Group (BUY; RM5.50)



**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, Half Month Effect, Day of the week, Holiday effects, End of quarter effects
This Strategy	:	Turn of the Month
Strategy Studies	:	Wealth of studies regarding the turn of the month effect is statistically conclusive that stock prices generally rise during the last four days and the first three days of each month. Therefore it is possible to capture a substantial part of equity return only during this fraction of market time.
Strategy Reason	:	<p>Most Investment literature ascribes this effect to the timing of monthly cash flows received by pension funds and reinvested in the stock market. End of the month is also a natural point for portfolio/trading models rebalancing between retail and professional investors and this also could help this effect to become statistically significant.</p> <p>Two Malaysia centric studies:-</p> <ol style="list-style-type: none"><li>1. Huson Joher Ali Ahmad, Deakin University, Australia with Ziaul Haque, University of Brunei, Darussalam titled "The day of the week, turn of the month and January effect on stock market volatility and volume: Evidence from Bursa Malaysia", and</li><li>2. Zainudin Arsad, Chuah Seng Aik, Siti Noor Mohd Nordin School of Mathematical Sciences, Universiti Sains Malaysia, Penang, Malaysia titled "Predictability of Turn-Of-The-Month Effect at Stock Markets in Malaysia, South Korea and Japan".</li></ol>
This Study rationale	:	Based on the abundance of studies available, and especially the 2 studies mentioned above, the Turn of the Month effect exists in most markets during stable times (no clear evidence during major crisis). This simple study was made to test whether individual stocks in the FBM KLCI Index exhibit the same phenomenon. This study is intended to highlight the profit potential available to individual investors and professional fund managers.
Findings Overview	:	Turn of the Month strategy can be used in Bursa Malaysia
Back Test Period	:	10 Years
Results Tabled	:	Summary based on 10-year data
Period Start	:	26-Oct-06
Period End	:	21-Oct-16
Index Observed	:	1 – FBM KLCI Index
Stocks Observed	:	30 – FBM KLCI Components
No. of observations	:	66,094
Observation/stock	:	2,203

Index / Stocks	Mkt Wgt position	Returns				Rebalancing		
		Last 4 days in Mth + 1st 3 Days New Mth	Rest Of Mth	Vari- ance	Ranked	Volume Above Period Average in Strategy 7 Days	Dates with volume above period average	Volume account for Period - %
FBMKLCI Index	0	5.56%	0.58%	4.98%		2	29,30	20.91%
TNB MK Equity	1	<b>4.18%</b>	1.17%	3.01%	20	3	29,30, 3	21.20%
PBK MK Equity	2	3.61%	<b>3.65%</b>	(0.04%)	27	3	28,29,30	22.07%
MAY MK Equity	3	<b>3.94%</b>	(1.41%)	5.35%	12	2	30, 2	21.59%
PICHEM MK Equity	4	<b>1.33%</b>	0.84%	0.50%	25	1	29	20.21%
IHH MK Equity	5	1.57%	<b>3.00%</b>	(1.43%)	29	2	29,30	22.09%
SIME MK Equity	6	(0.35%)	(1.42%)	1.08%	23	2	30, 2	20.64%
AXIATA MK Equity	7	<b>0.56%</b>	(0.34%)	0.91%	24	5	28,29,30, 2,3	21.03%
MAXIS MK Equity	8	0.47%	<b>0.62%</b>	(0.15%)	28	3	29,30, 2	22.73%
PTG MK Equity	9	<b>3.03%</b>	2.92%	0.12%	26	2	28,30	22.47%
CIMB MK Equity	10	<b>6.23%</b>	(0.07%)	6.29%	9	4	29,30, 2,3	22.22%
DIGI MK Equity	11	<b>10.71%</b>	2.75%	7.96%	6	3	28,29,30	21.53%
MISC MK Equity	12	<b>6.20%</b>	(2.28%)	8.49%	5	2	28,30	19.54%
GENT MK Equity	13	<b>9.39%</b>	(0.81%)	10.20%	2	5	28,29,30, 2,3	21.66%
IOI MK Equity	14	<b>8.96%</b>	(0.67%)	9.63%	3	2	28,30	20.21%
HLBK MK Equity	15	1.13%	<b>3.69%</b>	(2.56%)	30	4	28,29,30, 2	21.95%
GENM MK Equity	16	<b>4.53%</b>	(0.60%)	5.13%	14	4	28,29,30, 2	21.06%
KLK MK Equity	17	<b>9.12%</b>	1.98%	7.13%	7	1	28	18.84%
T MK Equity	18	<b>8.46%</b>	1.62%	6.85%	8	3	28,30, 2	20.68%
PETD MK Equity	19	<b>8.78%</b>	4.48%	4.31%	16	1	30	20.10%
PEP MK Equity	20	<b>7.26%</b>	3.25%	4.01%	17	2	29,30	20.34%
HAP MK Equity	21	<b>10.62%</b>	<b>7.18%</b>	3.45%	19	2	30, 3	19.79%
YTL MK Equity	22	<b>3.14%</b>	1.32%	1.82%	22	4	28,29,30, 2	23.37%
RHBBANK MK Equit	23	<b>12.24%</b>	(0.27%)	12.50%	1	3	28,29,30	21.21%
HLFG MK Equity	24	<b>7.34%</b>	3.02%	4.32%	15	2	29, 30	20.53%
WPRTS MK Equity	25	<b>6.26%</b>	0.46%	5.80%	11	1	29	19.02%
ASTRO MK Equity	26	<b>1.75%</b>	(0.81%)	2.57%	21	3	29,30,31	20.72%
KLCCSS MK Equity	27	<b>7.03%</b>	3.11%	3.92%	18	3	28,29,30	20.75%
ROTH MK Equity	28	<b>5.15%</b>	(0.93%)	6.08%	10	3	28,29,30	22.83%
AMM MK Equity	29	<b>8.87%</b>	(0.70%)	9.57%	4	2	28,30	20.70%
SAKP MK Equity	30	<b>3.05%</b>	(2.16%)	5.22%	13	5	28,29,30, 2,3	22.66%
	Average	5.49%	1.09%	4.40%		3		21.12%
	Max	12.24%	7.18%	12.50%		5		23.37%
	Min	(0.35%)	(2.28%)	(2.56%)		1		18.84%

## Verdict

Overall : 26 out of the 30 FBM KLCI Index stocks performed better during the "Turn of the Month" strategic days as compared to the rest of the month days.

## Individual stock findings:

- Out of 30 FBM KLCI constituents, 26 stocks outperformed according to turn of the month strategic days, or equivalent to 87%.
- The 4 Stocks that did not perform according to strategy, in which the strategic days' returns were less than the rest of the month's return, were Public Bank, IHH Health Care, Maxis and Hong Leong Bank.
- 15 stocks had returns better than the FBM KLCI average return of 5.56% during the strategic days, with the highest return of over 12.24% for RHB Bank which more than doubled the index return.

- 3 stocks with over 10% return were RHB Bank (12.24%), Digi (10.71%) and Hap Seng (10.62%).
- 15 stocks with return over 6.0% and outperformed the FBM KLCI strategic days' return of 5.56% were RHB Bank, Digi, Hap Seng, Genting, KLK, IOI, AMMB, Petronas Dagangan, Telekom, Hong Leong Finance, PPB Group, Westports, CIMB, KLCCSS and MISC.
- The only stock that did better than the FBM KLCI Index for the both the strategic days and the rest of the month days was Hap Seng.
- Based on the variance of returns between strategic days and rest of the month on per stock basis, 10 stocks evidenced that the strategic days should be used for stock return out performance - see "Ranked column", it seen that the disparity is very wide.
- The percentage of volume traded during the 7 strategic days for all stocks averaged 21% of total volume for the period but not more than 24%.
- 3 stocks which traded with 5 days above period average volume out of the 7 strategic days were Axiata, Genting and SapuraKencana. This means that investors would not be hindered by volume constraint in order to capitalize on this strategy.
- 5 stocks that traded with 4 days above period average volume out of the 7 strategy days were CIMB, Hong Leong Bank, Genting Malaysia, Telekom and YTL. Likewise, this means that investors would not be hindered by volume constraint in order to capitalize on this strategy.
- There were 4 stocks whose rest of the month days' return outperformed the strategic days' and theses were Public Bank, IHH Healthcare, Maxis and Hong Leong Bank.
- For rest of the month days, there were 13 stocks that had negative return for the 10-year study period.
- 2 stocks, namely MISC and SapuraKencana, experienced loss of more than 2% for the rest of the month days in the study period.

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.