

25 January 2017 | Strategy-Quant

## Turn of the Month effect

*Our top 5 picks for Jan/Feb 2017 cycle*

**KLCI: 1,680.69 points**

**2017 Year-end Target: 1,830 points**

**Turn of the Month effect.** Wealth of studies regarding the "Turn of the Month" effect is statistically conclusive that majority of equity stocks exhibit rising price during the last four days and the following first three days of every month. Therefore it is possible to capture a substantial part of equity return only during this fraction of market time.

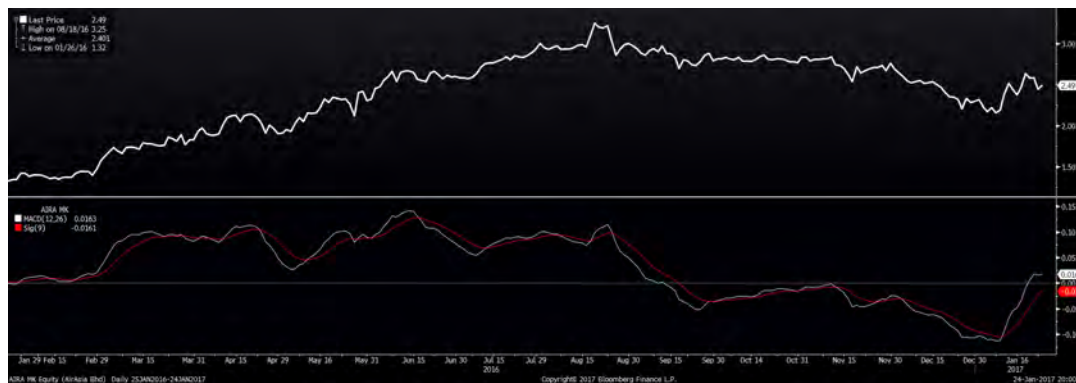
**61% of FBM KLCI constituents exhibited January/February "Turn of the Month" effect.** Based on our 5-year quantitative studies, 22 out of the 36 FBM KLCI Index (current and former) constituents performed better during the January/February "Turn of the Month" strategic days as compared to the rest of the January/February days.

**The 14 stocks that did not perform according to this strategy,** in which the January/February strategic days' returns were less than the remainder of the January/February days' returns based on our 5-year studies, were Tenaga Nasional, Petronas Chemicals, IHH Healthcare, Axiata, Maxis, MISC, Hong Leong Bank, KLK, PPB Group, Astro, KLCCSS, AMMB Holdings, SAKP and Berjaya Sports Toto.

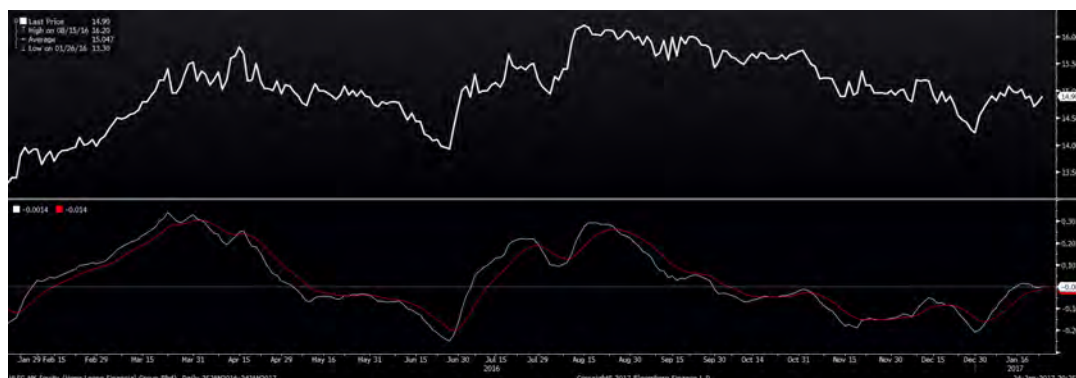
### RECOMMENDATION

**Top 5 picks.** The "Turn of the Month" strategic days period for the January/February 2017 cycle begins today. Based on (i) our quantitative findings (Refer to APPENDIX); and supported by (ii) our fundamental views, i.e. stocks with expected price return (EPR) of 8% or higher; we list below our top 5 stocks recommendation for the current cycle of the turn of the month strategic days:

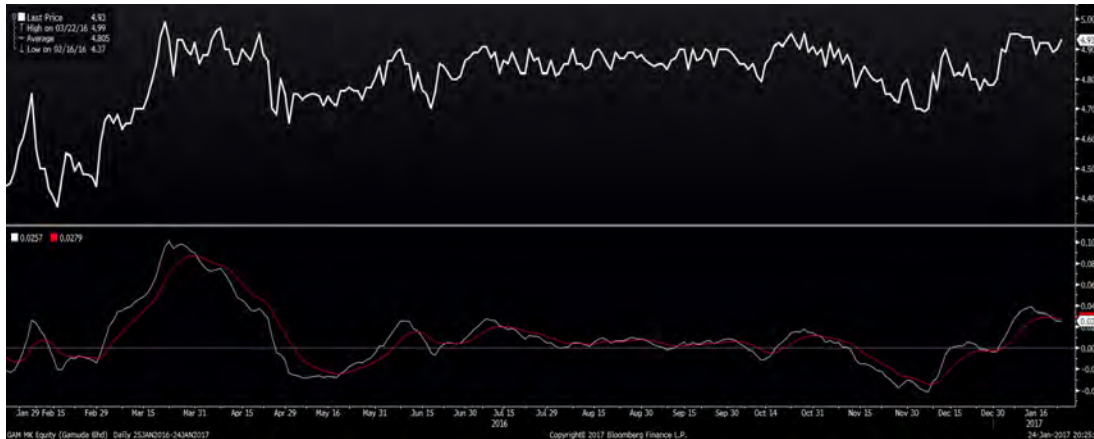
- Air Asia (BUY; TP: RM3.45; EPR: 38.6%)



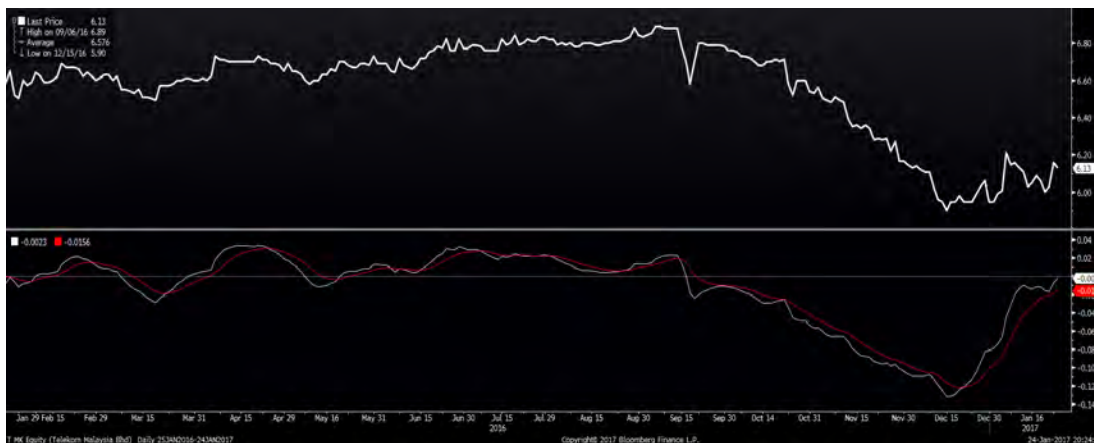
- Hong Leong Financial Group (BUY; TP: RM17.20; EPR: 15.4%)



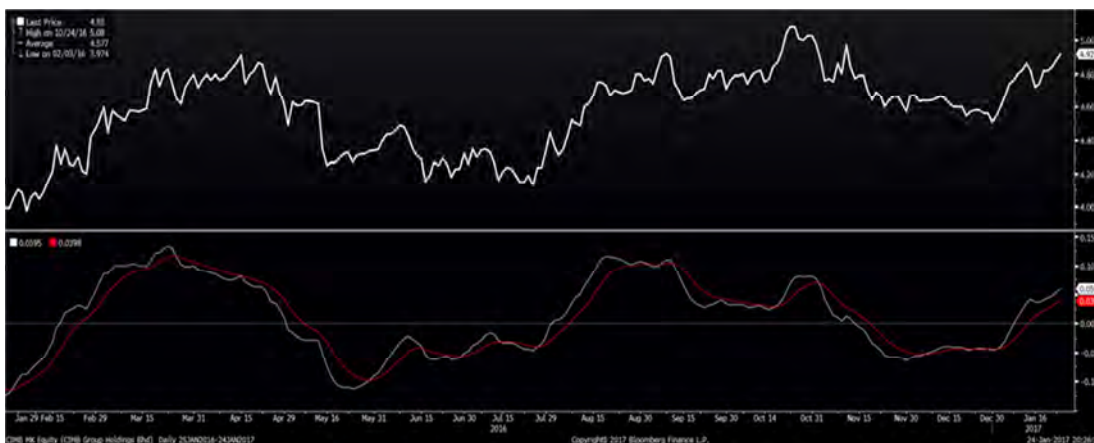
- Gamuda (BUY; TP: RM5.50; EPR: 11.6%)



- Telekom Malaysia (BUY; RM8.18; EPR: 33.4%)



- CIMB Group (BUY; RM5.90; EPR: 19.9%)



**FBM KLCI year-end target.** We reiterate our FBM KLCI 2017 year-end target at 1,830 points which equates to PER17 of 17.1x. 

**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	:	5 Years
Results Tabled	:	Summary based on 5-year data of January and February months
Period Start	:	01-Jan-12
Period End	:	28-Feb-16
Index Observed	:	1 – FBM KLCI Index
Stocks Observed	:	30 – FBM KLCI Components
No. of stocks	:	36 (stocks that make up FBM KLCI Index during past 5 years)
No. of observations	:	6,539
Observation/stock	:	182

Index / Stocks	Mkt Wgt position	Returns				Rebalancing		Volume account for Period - %
		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	
<b>FBMKLCI Index</b>	<b>0</b>	<b>0.31%</b>	<b>0.14%</b>	<b>0.17%</b>		<b>2</b>	<b>28,29</b>	<b>18.02%</b>
TNB MK Equity	1	0.21%	<b>0.59%</b>	(0.38%)	27	2	28,29	15.22%
PBK MK Equity	2	<b>0.49%</b>	<b>0.16%</b>	0.32%	17	2	28,29	16.39%
MAY MK Equity	3	<b>0.41%</b>	<b>0.30%</b>	0.12%	20	2	28,29	17.85%
PCHEM MK Equity	4	-1.30%	<b>0.12%</b>	(1.43%)	34	2	28,29	18.03%
IHH MK Equity	5	-0.09%	<b>0.44%</b>	(0.53%)	29	2	28,29	18.91%
SIME MK Equity	6	<b>0.51%</b>	0.08%	0.43%	16	3	28,29,2	18.30%
AXIATA MK Equity	7	-0.33%	<b>-0.27%</b>	(0.07%)	23	<b>3</b>	28,29,2	19.37%
MAXIS MK Equity	8	-1.98%	<b>-0.14%</b>	(1.83%)	36	2	28,29	20.24%
PTG MK Equity	9	<b>0.92%</b>	<b>0.47%</b>	0.45%	13	2	28,29	18.39%
CIMB MK Equity	10	<b>0.52%</b>	-0.11%	0.63%	10	<b>2</b>	28,29	17.57%
DIGI MK Equity	11	<b>0.33%</b>	-0.20%	0.53%	11	2	28,29	18.52%
MISC MK Equity	12	0.70%	<b>1.53%</b>	(0.83%)	33	2	28,29	14.10%
GENT MK Equity	13	<b>0.33%</b>	<b>0.17%</b>	0.15%	19	<b>3</b>	29,2,3	18.61%
IOI MK Equity	14	<b>0.40%</b>	<b>0.22%</b>	0.18%	18	2	28,29	17.03%
HLBK MK Equity	15	0.05%	<b>0.44%</b>	(0.39%)	28	<b>3</b>	28,29,3	21.48%
GENM MK Equity	16	<b>2.88%</b>	<b>0.15%</b>	2.73%	1	<b>3</b>	28,29,2	22.06%
KLK MK Equity	17	-0.59%	<b>-0.04%</b>	(0.55%)	30	2	28,29	15.43%
T MK Equity	18	<b>0.60%</b>	<b>0.15%</b>	0.45%	14	<b>2</b>	28,29	15.13%
PETD MK Equity	19	<b>0.75%</b>	<b>0.70%</b>	0.04%	22	2	28,29	17.84%
PEP MK Equity	20	-0.43%	<b>0.28%</b>	(0.71%)	32	2	29,3	16.69%
HAP MK Equity	21	<b>2.37%</b>	<b>-0.02%</b>	2.39%	3	2	28,29	18.00%
YTL MK Equity	22	<b>1.00%</b>	<b>0.25%</b>	0.75%	9	<b>2</b>	28,29	26.20%
RHBBANK MK Equit	23	<b>1.96%</b>	<b>0.46%</b>	1.50%	8	3	28,29,2	20.36%
HLFG MK Equity	24	<b>2.07%</b>	<b>0.40%</b>	1.67%	6	4	28,29,30,2	22.94%
WPRTS MK Equity	25	<b>0.37%</b>	-0.07%	0.44%	15	1	29	12.06%
ASTRO MK Equity	26	-0.01%	<b>0.18%</b>	(0.19%)	24	2	29,30	13.11%
KLCCSS MK Equity	27	-0.80%	<b>0.74%</b>	(1.54%)	35	1	3	13.22%
ROTH MK Equity	28	<b>0.74%</b>	<b>0.26%</b>	0.48%	12	2	28,29	16.98%
AMM MK Equity	29	-0.84%	<b>-0.23%</b>	(0.61%)	31	1	29	16.61%
SAKP MK Equity	30	-0.10%	<b>0.21%</b>	(0.31%)	25	2	28,29	15.91%
BST MK Equity	31	-0.68%	<b>-0.31%</b>	(0.37%)	26	4	28,29,30,31	22.68%
NESZ MK Equity	32	<b>0.14%</b>	0.02%	0.12%	21	2	28,30	13.60%
GAM MK Equity	33	<b>1.77%</b>	<b>0.23%</b>	1.55%	7	3	28,29,3	16.82%
MAS MK Equity	34	<b>1.06%</b>	-0.72%	1.77%	5	2	28,3	14.34%
MMHE MK Equity	35	<b>0.71%</b>	-1.19%	1.90%	4	1	28	14.44%
AIRA MK Equity	36	<b>3.34%</b>	<b>0.74%</b>	2.61%	2	4	28,29,2,3	20.75%
	Average	0.49%	0.17%	0.32%		2		17.64%
	Max	3.34%	1.53%	2.73%		4		26.20%
	Min	(1.98%)	(1.19%)	(1.83%)		1		12.06%

## Verdict

Overall : 22 out of the 36 FBM KLCI Index stocks performed better during the January/February "Turn of the Month" strategic days as compared to the rest of the January/February days.

**Individual stock findings:**

- Out of 36 FBM KLCI (current and past) constituents, 22 stocks outperformed during the January/February turn of the month strategic days, or equivalent to 61%.
- The 14 stocks that did not perform according to the strategy, in which the strategic days' returns were less than the rest of the month days' returns, were Tenaga Nasional, Petronas Chemicals, IHH Healthcare, Axiata, Maxis, MISC, Hong Leong Bank, KLK, PPB Group, Astro, KLCCSS, AMMB Holdings, SAKP and Berjaya Sports Toto.
- The 22 stocks which had returns better than the FBM KLCI average return of 0.31% during the strategic days were Public Bank, Maybank, Sime Darby, Petronas Gas, CIMB, Digi, MISC, Genting Malaysia, IOI, Genting, Telekom, Petronas Dagangan, Hap Seng, YTL, RHB Bank, Hong Leong Financial Group, Westports, BAT, Gamuda, Malaysia Airlines, MMHE and Air Asia. The highest return of over 3.34% for Air Asia was more than ten-fold the benchmark index return.
- The only stock that did way better than the FBM KLCI for the both the strategic days and the rest of the month days was Air Asia.
- 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 outperformance – see "Ranked column" – as it can be seen that the disparity is very wide.
- The percentage of volume traded during the 7 strategic days for all stocks averaged 17% of total volume for the period but not more than 26%.
- The 3 stocks that traded with at least 4 days of above period average volume out of the 7 strategic days were Air Asia, Hong Leong Financial Group and Berjaya Sports Toto.
- There were 14 stocks whose rest of the month days' return outperformed the strategic days' and these were Tenaga Nasional, Petronas Chemicals, IHH Healthcare, Axiata, Maxis, MISC, Hong Leong Bank, KLK, PPB Group, Astro, KLCCSS, AMMB Holdings, SAKP and Berjaya Sports Toto.
- For rest of the month days, there were 11 stocks that registered negative return during the 5-year study period.
- There were 2 stocks, namely Malaysia Marine Heavy Engineering and Malaysia Airlines, which experienced losses of more than 0.5% 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.