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## Month of the Year and Pre-Holiday Effects In Indonesia and Malaysia *Shari'ah* Compliance

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*This paper investigates the existence of two anomalies in Indonesia and Malaysia Shari'ah compliance; the month of the year and pre-holiday effect, and their implication for stock market efficiency. Investing in Shari'ah compliant is different from investing in conventional stock. Conventional stock market follows the capital market set of rules and law, while Shari'ah follows not only the capital market set of laws but also the Islamic principles. Most of the previous studies investigated issues related to conventional stock market, this study take one step further by investigating issue related to Shari'ah compliant instrument and make comparison between both Shari'ah compliance stock market in Indonesia and Malaysia. We document high and significant returns in month and pre-holiday in Indonesia and Malaysia stock market that represent by the Shari'ah compliance. Our result indicate that the month of the year effect is prevalent in Indonesia and Malaysia Shari'ah compliance.*

**Keywords:** *Calendar effects, Indonesia and Malaysia Shari'ah compliance, Month of the year and pre-holiday effects*

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### Introduction

For almost ten years after the publication of Fama's classic exposition in 1970, the Efficient Markets Hypothesis (EMH) dominated the academic and business scene. According to this hypothesis the market is efficient if its price are formed on the basis of all available information. Stock market is efficient not only if all relevant information about the company are incorporated into stock price, but also influence investor rationality in taking investment decisions.

The assumption that investors are rational and therefore value investments rationally – that is, by calculating the net present values

of future cash flows, appropriately discounted for risk – has not been supported by empirical evidence. Rather the evidence shows that investors are affected by herd instinct, a tendency to “churn” their portfolios, and a tendency to under-react or over-react to news or asymmetrical judgements about the causes of previous profits and losses. Furthermore, many alleged anomalies have been detected in the patterns of historical share prices. The best known are calendar anomalies.

A number of researchers have begun examined the calendar anomaly as early as 1980s and until the present time (e.g., French, 1980; Keim, 1983; Gultekin and Gultekin, 1983; Keim and

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Stambaugh, 1984; Rogalski, 1984; Jaffe and Westerfield, 1985; Harris, 1986; Abraham and Ikenberry, 1994; Ho and Cheung, 1994; Hakan and Halil, 2003; Kenourgios and Samitas, 2008). Most of their works, however, analyzed the calendar anomaly of stock return in various markets around the world using the conventional stock index rather than *Shari'ah* compliance index. Their findings conclude that the month of the year and pre-holiday effect is present in most market. However, very few studies examined the calendar anomaly using *Shari'ah* compliant. Husain (1998), for example, finds that the average return does not change significantly in *Ramadhan* compared with other months. The objective of the present study is to examine the month of the year and pre-holiday effect focusing on the *Shari'ah* compliance stocks Indonesian Stock Exchange and Bursa Malaysia. Specifically, we investigate whether the information processed over a month of the year and pre-holiday will affect the index return in Indonesia and Malaysia *Shari'ah* compliance, this will relate to elements of the efficient market hypothesis (EMH).

*Shari'ah* capital market industry may still be considered as a relatively new developing industry, although for muslim countries like Indonesia and Malaysia the growth of *Shari'ah* capital market is relatively progressive not only because of the muslim population in this country is huge but also both countries has been trying for years in preparing the fundamental and tools to invest in *Shari'ah* capital market. Considering the fact, in order to provide a solid foundation and a comprehensive development direction, it requires a medium term development strategy, the strategy can be implemented in socialization process to withdraw investor to invest in *Shari'ah* capital market where eventually can encourage the acceleration of *Shari'ah* capital market growth in Indonesia and Malaysia.

This fundamental reason is the main factor for the growth of *Shari'ah* capital market. This reason also brings tremendous attention to perform product and services in capital market according to *Shari'ah* compliance. Islamic Indices or *Shari'ah* compliance has been a major

turnover for the beginning of the Islamitation in capital market and marked the beginning of *Shari'ah* capital market. The *Shari'ah* law is requirement that implemented to companies to be classified as a stocks that follow or fulfill the *Shari'ah* principle. For several countries the rules for a company to be classified as *Shari'ah* stocks are different, depends on the requirements that announced by the *Shari'ah* board in each country.

In Indonesia about 86.1% of 230 million of population are muslim, which makes Indonesia the biggest muslim majority country in the world. Therefore, Indonesia offers bright prospects for the development of Islamic capital market. Based on the 2012 Indonesian Islamic Capital Report, the development of *Shari'ah* stocks on the Indonesia *Shar'iah* Securities List shows an increasing number from 173 in 2007 to 253 *Shari'ah* stocks in 2012. As March 2012, the percentage of *Shari'ah* stocks have exceeded the percentage of conventional stocks at 50.7%. While in Malaysia the growth of *Shari'ah* compliance is very significant showed by number of listed companies in 2012 were 766 and the percentage of exceeded the percentage of conventional stocks at 82.3%. Thus making comparison between Indonesia and Malaysia *Shari'ah* compliance are appropriate since not only both countries are geographically closed but also of the strong correlation and integration of *Shari'ah* stock market in both countries.

## Literature Review

Ho (1990) examines twelve stock markets, including Australia, Japan, Korea, New Zealand, Singapore, Thailand, UK and US, and find consistent evidence of the January effect. Arsad and Coutts (1997) and Choudhry (2001) find significant January effect in the UK stock market. Mehdiian and Perry (2002) investigate the January effect in three US market indexes from 1964–1998: Dow Jones Composite, NYSE Composite and the SP500, they find positive and significant January returns in all three stock market indexes prior to 1987, the effect disappears thereafter. On the other hand, Fountas and Segredakis (2002) investigate the month of the

year effect in eighteen emerging equity markets, they observe that stock returns for January were significantly higher than the returns for the remaining eleven months only in Chile, Greece, Korea, Taiwan and Turkey. Doran et al. (2008) and Rezvanian et al. (2008) find no significant January effect in the Chinese stock market. Giovanis (2009) examines fifty five stock markets and the January effect is rejected, as it is presented only in seven stock markets, while the most frequent significant higher monthly returns are reported in December of twelve stock markets. Keong et al. (2010) study the same issue in eleven Asian countries; Hong Kong, India, Indonesia, Japan, Malaysia, Korea, Philippines, Singapore, Taiwan, China and Thailand using GARCH (1,1) model. They find positive December effect, except for Hongkong, Japan, Korea, and China. Only some countries do have positive January, April, and May effect and only Indonesia demonstrates negative August effect. Marrett and Worthington (2011) examine the month of the year effect in the Australian stock market. Their results show that returns are significantly higher in April, July and December along with evidence of a small cap effect with systematically higher returns in January, August and December. Patel (2012) finds that the January effect no longer exists for many developed and emerging markets.

Chong et al. (2005) examine pre-holiday effect across three important markets of the world i.e. US, UK and Hongkong, during the last three decades of the 20th century. Data on daily stock index returns was extracted from DataStream. S&P 500 index was used for US, FT 30 was used as a representative of the UK market and Hang Seng index was used for the Hongkong market. The time period under study was from 1973-2003. The sample period was divided into two categories for each of the three markets: the trading days before a specific holiday (when the stock market was closed) and the trading days during the rest of the year. The descriptive statistics were then calculated for all the three indices under study, *t*-statistic for the differences in the average of returns was also computed. The results showed a strong evidence for the existence of the pre-holiday effect in all the

three indices, effect being most significant for UK and Hongkong indices. It was found that the average of returns on the days specifically before a certain holiday was more than the average of the returns on other non pre holidays. Another test was also conducted to analyze if this anomaly persists or has declined over the years in these three markets. Time series regression analysis was used for deriving results and a declining pre-holiday effect was witnessed in the US market specifically in the 1990s. The decline was not that evident in the other two markets i.e. UK and Hong Kong. Al-Loughani (2005) investigated the presence and causes of holiday effect on stock returns in the Kuwait stock exchange (KSE). The general daily stock index published by the Global Investment House was the data used. The time period under study was from 1984-2000. The holidays considered for the study were those that were declared by the government and that involved closure of the stock market. The data was split into two sub periods which were: the pre invasion period which was from 1984-1990 and the post liberation time period which was from 1993-2000. Returns during the trading days right before any specific holiday and the rest of the trading days of the year during the two sub periods were compared. *T*-statistics, Mann-Whitney test and Kruskal Wallis test were conducted on the data to obtain results for analysis. It was apparent from the tests that there was not any noticeable difference between the two sub periods, thereby indicating that holiday effect does not exist in the KSE. A further analysis using Kruskal Wallis test was also conducted to determine if there was any particular pattern of return observed during the time surrounding the holidays and it was revealed that the returns on post holidays were higher than the returns on pre-holidays or other trading days of the year. The reason quoted in the paper was that the investors engage in selling before the holidays and right after the holidays they develop their investment portfolios again.

Meneu and Pardo (2004) analyze the most important individual stocks of the Spanish Stock Exchange and they discovered high abnormal returns on the trading days prior to the

public holidays. Lucey (2005) finds a significant pre-holiday effect on the Irish equities evolution. Hansen et al. (2005) test the calendar effects significance for capital markets from ten industrialized countries and their results indicated that pre-holiday returns were among the best five for the United States, for Norway and for Italy, while the post-holiday returns were among the best five for Norway.

Marrett and Worthington (2007) investigate twelve indices from the Australian stock market and find pre-holiday effects for three of them. There were, however, researches which failed to provide any evidence of the holiday effects. For example, Blandon (2010) analyzed calendar anomalies for the LATIBEX market, formed by Latin-American companies quoted in the Spanish Stock Exchange, finding no holiday effects. Several attempts were made to explain the holiday effects since their discovery. Some of them are based on the behavioral finance approaches and on the investor psychology. The optimism that animates investors in the days that precede public holidays is considered responsible for high returns, while the lower performances from post-holidays are viewed as corrections after these shocks, there are also theories that examine the independence of the calendar anomalies. For example, Pearce (1996) revealed that almost half of the public holidays occurred on Monday. Several paper revealed, for many stock markets, there are significant influence of holiday effects. Sometimes, these changes were provoked by dramatic events such the financial crisis.

## Research Method

### Data

This section offers a brief description of the research method and the data set. Using daily closing price of Indonesia *Shari'ah* compliance and Malaysia *shari'ah* compliance from the period of 2000 : 1 to 2010 : 12. The companies that classified as *Shari'ah* in Indonesia are 214 companies while in Malaysia there are 766 companies.

Since Indonesia and Malaysia *Shari'ah*

compliance has experienced major structural changes with the potential for affecting market efficiency, we divide our chosen sample period into three following sub periods of differing market stages :

1. 1<sup>st</sup> January 2000 – 29<sup>th</sup> December 2004; periods during its early stages of Indonesia *Shar'iah* compliance and Malaysia *Shari'ah* compliance development. In the early stages showed that many turbulences influence the establishment of *shari'ah* indices in both countries specially in term of policy and socialization.
2. 1<sup>st</sup> January 2005 – 29<sup>th</sup> December 2008; periods during which the Indonesia *Shari'ah* Compliance and Kuala Lumpur *Shari'ah* compliance stock market grew significantly in size and number. The growth of Indonesia *Shari'ah* Compliance and Malaysia *Shari'ah* compliance are because both countries has implemented and formulated socialization process.
3. 1<sup>st</sup> January 2009 – 29<sup>th</sup> December 2010 periods after market crash. The period after market crash showed that both *shari'ah* index in Indonesia and Malaysia are reluctant to several crisis such as Subprime mortgage crisis in US and debt crisis in Europe.

The stages allowed us to test for the presence of the monthly and pre-holiday effect over shorts period of time. It also enables us to determine whether there was any persistent monthly and pre-holiday effect in the Indonesia and Malaysia *Shari'ah* compliant.

### Methodology

Monthly continuously compounded log returns are calculated as;

$$R_t = \log \left( \frac{P_t}{P_{t-1}} \right) * 100 \quad 1)$$

The standard methodology employed in investigating seasonality in monthly returns entails estimating an OLS regression with dummies to capture month of the year effects as;

$$R_t = \alpha_1 M_{1t} + \alpha_2 M_{2t}, \dots, \alpha_{12} M_{12t} + \varepsilon_t \quad 2)$$



$R_t$  is the continuously compounded index return on month  $t$  as shown in (1) and  $P_t$  denotes the asset price at time  $t$ . The  $M_{it}$  are dummy variables so that  $M_{1t} = 1$  if month  $t$  is January and zero otherwise;  $M_{2t} = 1$  if the month  $t$  is February and zero otherwise and so forth. The OLS coefficients  $\alpha_1$  to  $\alpha_{12}$  are the mean returns for January through December respectively and  $\varepsilon_t$  is the stochastic term. The presence of monthly seasonality implies;

$$\begin{aligned} H_0: \alpha_1 = \alpha_2, \dots, \alpha_{12} = 0 \text{ against} \\ H_1: \alpha_i \neq 0 \text{ for } i = 1, \dots, 12 \end{aligned} \quad (3)$$

If the null hypothesis is rejected, then stock returns must exhibit some form of monthly seasonality.

Previous evidence examined the month of the year effect in various markets in the context of equation (2), using the standard  $t$  and  $F$ -test without paying attention to the time series properties of the data. For instance the error in the model may be autocorrelated, resulting in misleading inferences. Also the error variances may not be constant over time, resulting in inefficient estimates if there is time-varying variance. The first drawback is resolved by including autoregressive terms in (2). However, since we are dealing with monthly data, the issue of non-synchronous trading is not so prominent in our data. The second drawback that is of interest to us is resolved by making the variance time varying.

$$h_t = \omega + \alpha \varepsilon_{t-1}^2 + \beta h_{t-1} + \sum_{i=2}^{12} \phi_i M_{it} \quad (4)$$

Where  $M_{it}$  represents monthly dummies,  $h_t$  is the conditional variance and  $\alpha$  and  $\beta$  represent the lagged squared error term and conditional variance respectively. Equation (2) represents our mean equation for the month of the year and equation (4) accounts for conditional heteroscedasticity in the month of the year effect. Thus we jointly estimate (2) and (4).

The pre-holiday effect is tested via the following regression;

$$R_t = \zeta_1 H_{1t} + \zeta_2 H_{2t} + \varepsilon_t \quad (5)$$

Where  $\zeta_1$  and  $\zeta_2$  are the mean returns for days prior to holidays and all other days respectively.  $H_{1t}$  is a dummy that takes the value of unity at all times other than days immediately preceding a public holiday, when it takes a value of zero. On the other hand,  $H_{2t}$  takes the value of one before a public holiday and zero at all other times. The null hypothesis that means pre-holiday returns are equal to the mean for other days is;

$$H_0: \zeta_1 = \zeta_2 \text{ against } H_1: \zeta_1 \neq \zeta_2 \quad (6)$$

A non-parametric Kruskal-Wallis test was conducted to test for the equality of returns across the month of the year and see any returns for different stages of data that chosen for this article. The Kruskal-Wallis test is based on the ranks of the observations. The formula for KW is as follows:

$$KW = \frac{12}{n(n+1)} \sum_{i=1}^k \frac{R_i^2}{n_i} - 3(n+1) \quad (7)$$

Where  $k$  is the of trading months return ( $k = 12$ ),  $n$  is the total number of sample observations,  $n_i$  is the sample size in  $i$  trading month, and  $R_i$  is the rank sum of the  $i$  trading month. The  $KW$  test statistics has a chi-square distribution with  $(k-1)$  degrees of freedom. In this study, there are eleven degrees of freedom with a 5% level of significance.

## Result and Discussion

Table 1 provides a summary of statistics on the mean returns for each month of Indonesia *Shari'ah* compliance. The descriptive statistics run for the whole periods: 2000-2010. The results showed that mean return for Indonesia is positive in the month of May, June, August, September, October and November while the rest of the month is showed negative returns, while March suffers lowest return, June observes the highest return in stock market in Indonesia *Shari'ah* Market. Returns exhibit negative skewness (i.e., data are skewed to the left) for four months and positive skewness (i.e., data are skewed to the right) for eight months. Five months have kurtosis greater than three

Table 1. Summary statistics of monthly returns Indonesia *Shari'ah* compliance

Statistics	Observations	Mean	t-stats	Variance	Skewness	Kurtosis
January	289	-0.0186	-0.2213	0.5576	1.2512	4.2594
February	231	-0.0221	-0.1626	0.2183	-2.8137	11.2397
March	242	-0.0022	-0.2893	0.3134	-0.0844	1.8952
April	231	-0.0125	-0.2344	0.2137	-0.2885	1.7653
May	242	0.0252	-0.0831	0.2396	1.0748	2.3908
June	231	0.0506	-0.0804	0.2859	1.0064	1.4775
July	220	-0.0081	-0.1431	0.1879	0.6904	0.3974
August	187	0.0109	-0.1566	0.1696	0.0160	1.7085
September	242	0.0271	-0.0618	0.3159	2.7519	10.1880
October	241	0.0413	-0.1521	0.5692	2.9903	12.9692
November	242	0.0191	-0.1714	0.2546	0.6453	0.4085
Desember	231	-0.0046	-0.2671	0.1469	-2.6359	11.4431

Table 2. Summary statistics of monthly returns Kuala Lumpur *Shari'ah* compliance

Statistics	Observations	Mean	t-stats	Variance	Skewness	Kurtosis
January	198	0.03226	-0.02603	0.02124	-0.7388	7.8385
February	209	-0.01322	-0.01350	0.01378	-0.3467	5.3195
March	231	-0.01444	-0.01211	0.00872	-0.5260	10.7970
April	242	-0.01327	-0.07890	0.01210	-0.1227	5.7002
May	242	-0.01704	0.02123	0.01316	-0.2084	6.1468
June	231	-0.00550	0.03271	0.01295	-0.0804	7.5173
July	220	-0.01062	0.01791	0.01486	-0.8530	7.2839
August	209	-0.01421	0.01867	0.01731	-0.3603	7.6900
September	231	0.01295	0.01951	0.00886	-0.4229	7.1434
October	242	0.01286	0.04460	0.01583	-0.4008	8.4188
November	231	0.01731	0.02112	0.01173	-0.1519	11.3460
Desember	165	0.00686	-0.01622	0.01568	-0.4416	5.8470

which represents leptokurtic distribution, i.e., flatter tails than the normal distribution.

Table 2 provides a summary of statistics on the mean returns for each month of Malaysia *Shari'ah* compliance. The descriptive statistics run for the whole periods : 2000-2010. The results showed that mean return for Malaysia *Shari'ah* compliance is positive in the month of January, September, October, November and December. While the rest of the month is showed negative returns, while June suffers lowest return, January observes the highest return in stock market in Malaysia *Shari'ah* compliance. Returns exhibit negative skewness (i.e., data are skewed to the left) for four months and positive skewness (i.e., data are skewed to the right) for eight months. Five months have kurtosis greater than three which represents leptokurtic distribution, i.e., flatter tails than the normal distribution.

From Table 3, we can see similar pattern in Indonesia and Malaysia *Shari'ah* compliance, around January there are significant return showed that most of investor in *Shari'ah* com-

pliance are getting significant return in January as the result of wait and see strategy through what happened around December where most of government rules, including tax rules are announced. Companies year end financial reporting are due to the end of December, this announcement will cause several companies are more profitable or interesting to several investor because of their performance in financial reporting and most of the companies that showing a good performance are classified in the *Shari'ah* compliance because most of the companies came from the background of food and beverages, properties, and mining industries where this industry during holiday has an increasing in sales due to holiday or religion festivity such as Idul Fitri or Christmas holiday.

### The Holiday Effect

The holiday effect causes higher-than-normal returns to be observed around holidays, mainly in the pre-holiday period. However, we define the holiday effect as the return from the

Table 3. Monthly Seasonality Indonesia and Malaysia *Shari'ah* Stock Returns

Item	Indonesia	Malaysia
January	0.00141 (0.00073) [1.71500]***	0.00078 (0.00035) [2.17200]**
February	-0.00119 (-0.00150) [-0.21700]	-0.00028 (-0.00140) [0.70200]
March	-0.00560 (-0.00120) [-0.81000]	-0.00450 (-0.00320) [-1.31300]
April	0.00143 (0.00057) [1.87600]	0.00150 (0.00055) [1.12400]
May	0.00335 (0.01890) [1.54100]***	-0.01150 (-0.00370) [-1.07700]
June	-0.00064 (-0.00820) [-0.88300]	-0.00605 (-0.00450) [-0.02000]
July	-0.01640 (-0.00620) [-0.87000]	-0.00370 (-0.00340) [-0.62500]
August	-0.02680 (-0.00730) [-1.86000]	-0.01150 (-0.00380) [-0.39500]
September	0.00101 (0.00092) [1.08700]	-0.00021 (-0.01390) [-0.53500]
October	-0.01220 (-0.00760) [-0.24200]	-0.02240 (-0.00260) [-0.67600]
November	0.01179 (0.00810) [2.22200]**	0.01227 (0.00400) [0.67400]
December	0.01246 (0.00056) [2.83600]*	0.00691 (0.00036) [1.94500]**
F-Statistics	1.92105 (3.42060) [5.64000]*	-0.23820 (0.03740) [-9.02700]*
AIC	0.09350 (0.02050) [4.60700]*	0.12730 (0.02020) [11.74300]*
SBC	0.12250 (0.02510) [4.66100]*	-0.04400 (0.01050) [-5.50900]*
ARCH (5)	0.66180 (0.31460) [31.35900]*	0.98210 (0.12330) [296.99000]*

\*denotes significance in 0.01 level , \*\*denotes significance in 0.05 level \*\*\* denotes significance in 0.10 level - standard errors in parentheses, z-statistics in brackets

Table 4. Summary of National Holidays

Item	National Holidays
Indonesia	January; New Year (1 <sup>st</sup> )#, Prophet Muhammad SAW Maulid (14 <sup>th</sup> )#, February; Chinese New Year (10 <sup>th</sup> )#, March; Nyepi New Years (12 <sup>th</sup> )#, Isa Almasih (29 <sup>th</sup> )#, May; Isa Almasih (9 <sup>th</sup> )#, Waisak Celebration (25 <sup>th</sup> )#, June; Prophet Muhammad SAW Isra' Mi'raj (6 <sup>th</sup> )#, August; Indonesian Independence Day (17 <sup>th</sup> )#, December; Christmas (25 <sup>th</sup> )#.
Malaysia	January; New Year (1 <sup>st</sup> )#, Prophet Muhammad Birthday (24 <sup>th</sup> )#, Thaipusam (27 <sup>th</sup> ), February; Federal Territory day (1 <sup>st</sup> ), Chinese New Year (10 <sup>th</sup> , 11 <sup>th</sup> )#, May; Labor Day (1 <sup>th</sup> ), Wesak day (24 <sup>th</sup> )#; June; Agongs Birthday (1 <sup>st</sup> ), Israk & Mikraj (6 <sup>th</sup> )#; August; Hari raya puasa (8 & 9 <sup>th</sup> ), National day (31 <sup>st</sup> )#, September; Malaysia day (16 <sup>th</sup> ), October; Hari raya haji (15 <sup>th</sup> ), November; Deepavali (3 <sup>rd</sup> ), Awal Muharram (5 <sup>th</sup> ), December; Christmas (25 <sup>th</sup> )#.

Notes: # holidays that occurred throughout the sample period in each country. The day in question are given in parenthesis.



Table 5. Pre-holiday effects in the Indonesia and Malaysia *Shari'ah* stock return

Item	Indonesia <i>Shari'ah</i> Compliance	Malaysia <i>Shari'ah</i> Compliance
Pre- Holiday	0.0004(0.362)	0.0002(0.313)
Other	-0.0005(-1.57)	0.0017(0.768)
F-Stat	0.1390[0.289]	0.6520[0.343]

Notes: Estimates of equation (5). p-values are shown in [ ] while t-statistics are shown in ( ).

Table 6. Wald Test and Kruskal-Wallis test results for three different stages of Indonesia and Malaysia *Shari'ah* compliance

Period	Full Period	Early Stages of <i>Shari'ah</i> compliance	Growth Stages of <i>Shari'ah</i> compliance	Stages after Market Crash
Indonesia <i>Shari'ah</i> Compliance				
F-Statistics	0.8049	0.4104	3.2885	4.3491
$\chi^2$ Statistics	7.6380	7.3410	13.8510	14.4080
Malaysia <i>Shari'ah</i> Compliance				
F-Statistics	0.9409	0.6423	5.2754	4.3217
$\chi^2$ Statistics	6.8745	5.6543	11.4321	12.6543

Note : Result for Wald test and Kruskal-Wallis test

pre-holiday close to the post-holiday close. In other words, the holiday returns are the daily returns for the trading weekday that follows a non-trading weekday. We summarize these for Indonesia and Malaysia *Shari'ah* compliance. From the table below we can see that there is quite different of holiday in Indonesia and Malaysia related to the diversity of religion and culture in both countries.

Table 5 provides the result of pre-holiday return were positive for *Shari'ah* compliance in Indonesia and Malaysia. Several factors, including economic and behavioral, could contribute to the observed positive pre-holiday returns in Indonesia and Malaysia *Shari'ah* compliance. One possible explanation is that the significant pre-holiday returns are a manifestation of the well-documented closing effect in which high returns for securities are observed at market closings. Indonesia and Malaysia are emerging markets with a long period establishment history. On the behavioral side, explanations are related to the investor behavior and reaction of certain religion holiday that happened in both countries such as Ramadhan holiday that last for one month where at this moment investor tend to slowing down their trading activity. This kind of reaction from investor are showing a optimism and trusting the market about future prospects.

The behavioral perspective also explained why after a short holiday (one day holiday) such as Maulid Nabi Muhammad SAW both in

Indonesia and Malaysia, trading tend to move slowly, since investor were only having short time period to make decision. Compared to long Holiday such as Idul Fitri holiday that last for 3 days until a week both in Indonesia and Malaysia, the mean return of trading tend to increased, particularly for *Shari'ah* compliance, since investor have a long time to make decision in pre or post holiday, where in pre-holiday the investment decision that they make is whether to sell or buy. Buying in pre holiday before a very long holiday means that investor wants to take advantages of the increasing due to high consumption of society such as foods, clothes, properties and other commodities. High consumption makes several companies in Food and Beverages and other industries increased, while selling after a long holiday could be meaning investor wants to liquidate their investment in form of cash after a huge cash outflow during holiday.

Table 6 shows the results for Wald test and Kruskal Wallis test. The *F*-test does not reject the null hypothesis at 5% level of significance of all periods. For KW test the values of  $\chi^2$  statistics are insignificant at 5% level for all periods. For each stages in the growth of *Shari'ah* compliance in Indonesia and Malaysia, there are no equality of means for each stages, it means there are adjusting period. From early stages more into implementing the socialization process about *Shari'ah* compliance to the investor, where in each stages apparently also

showing the growth for the number of investor and companies and on the last stage apparently the *Shari'ah* market were more endure against financial crisis.

Table 6 also showed some different among Indonesia and Malaysia *Shari'ah* compliance, not only from the growth side but also from the *Shari'ah* screening. In the end of 2012 the number of companies that classified as *Shari'ah* in Indonesia were 214 and 766 for Malaysia. The number showed Indonesia Stock Exchange have to change the *Shari'ah* screening process system into more shorter period but also need to establish a better socialization process and regulation system of *Shari'ah* compliance not only to the investor but also for the society.

## Conclusion

There is a difference between investing in *Shari'ah* compliant stocks and conventional stocks. The conventional stocks are based on the capital market set of rules and law, while *Shari'ah* stock market has to follow both the capital market set of laws and also the Islamic principles of transactions. The study on *Shari'ah* related issues are rare not only in Indonesia and Malaysia but also elsewhere.

This paper investigates two anomalies in security returns: the month of the year and the pre-holiday effect, and accounted for conditional volatility in the month of the year effect. The existence and persistence of anomalies tend to contradict the notion of market efficiency, since traders can earn abnormal returns just by examining patterns and setting trading strategies accordingly, resulting in returns that are not commensurate with risk.

The study finds that January effect is presented only in Malaysia *Shari'ah* Compliance.

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On the contrary we find a December effect, where the highest significant return are reported in December, where the specific effects are presented in Indonesia, While for October, Indonesia and Malaysia *Shari'ah* compliance has quite similar return. Furthermore, a February effect is stronger than January, as it is presented in Malaysia *Shari'ah* compliance.

April effect is followed by Indonesia *Shari'ah* compliance, some other weaker monthly anomalies are March, September and November effect that presented in *Shari'ah* stock market in both countries. For the holiday effect is only significant for Malaysia *Shar'iah* compliance. There are high and significant returns in days preceding a holiday January returns are positive and significant for Indonesia. February returns are higher for Malaysia. The discoveries are statistically significant. anomalies could imply the ability of trading rules to yield superior outcomes if they are also economically significant.

The results also related to the market size, capitalization and number of companies that listed in both *Shari'ah* compliance but these still need further investigation particularly regarding on how each investor in both countries reacts to different holiday season in both countries, For example in Malaysia they has *deep-avali* day that related to cultural festivity and in Indonesia has *Isa Almasih* holiday that related to religion festivity, the differences makes investor react differently in term of investment decision.

The result suggests that the *Shari'ah* compliance has not been purely efficient and makes investors can take abnormal return market in month and holiday, a findings similar to those of conventional stock in various countries.

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