Monday effect in Brazilian hedge funds with immediate redemption

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ABSTRACT

The weekday effect is characterized by a behaviour pattern in stock returns connected with certain days of the week. Several studies on this subject have been published in conferences and journals. However, the analysis of this anomaly with returns of investment funds still represents an opportunity for new studies. Thus, the aim of this research is to analyse the Monday Effect in Brazilian hedge funds that do not have redemption restrictions. We collected daily returns from 2162 hedge funds, comprising a total of 2,689,791 observations from January/2005 to March/2014. To test the hypotheses, we used panel data, and we also employed a quantitative test to evaluate the presence/absence of unit root. The main results showed that, on average, Mondays showed lower returns than the other days of the week. Furthermore, inflation rate seems to be a relevant variable to better understand this result with data from emerging economies.

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1. Introduction

The investment funds industry has shown a significant increase over the past years (Gomes and Cresto, 2010; Malaquias and Eid, 2014). Studies about investment funds have been developed with different approaches and focus (Agarwal and Naik, 2000; Brooks and Kat, 2002; Amin and Kat, 2003; Rochman and Eid, 2006; Malaquias and Eid, 2013; Malaquias and Mamede, 2015; Diez-Esteban et al., 2016; Petrillo et al., 2016; Venanzi, 2016). Among the categories of investment funds, hedge funds are a segment that has shown relevant research on the international and Brazilian agenda of studies.

When analysing the performance of investment funds, we also indirectly discuss the theory of Efficient Market Hypothesis – EMH (Fama, 1970, 1991). This theory states that the security returns in the market do not show a behavioural pattern that would allow for extraordinary gains based on the available information, whether they are historical/past, public or private. However, in studies on market efficiency standards, behavioural patterns have been already detected in asset returns, and some of them were treated as anomalies.

These anomalies, in particular the calendar effect, were first noted by Gibbons and Hess (1981), and subsequently ratified by other researchers (Keim, 1983; Keim and Stambaugh, 1989; Brav and Heaton, 2006). According to Reilly and Norton (2008), the Weekend Effect or Monday Effect may be deemed as the lowest average return in comparison with the other days of the week, that is, Monday returns are significantly lower when compared to the returns of the other weekdays.

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Despite the number of papers addressing investment funds, and papers addressing the calendar effect, studies on this anomaly with returns of investment funds seem to demand additional analysis, which motivated the development of this research. Therefore, the aim of this paper is to analyse the Monday effect on the hedge funds market. We choose the hedge funds in the reason of the liquidity of their quotas, compared with another funds (ANBIMA, 2014), which is fundamental to analyse this effect. Furthermore, we selected only funds that do not have redemption restrictions.

Hedge funds have investment policies involving several risk factors. They can combine several assets in its portfolio, such as fixed income and equities (stocks), exchange bills, and other ones. They also have a significant presence in the derivatives market. Moreover, the differential of hedge funds is its flexibility, since they can alter the composition of their portfolio over time with the best time in the market (Agarwal and Naik, 2000; Brooks and Kat, 2002; Ben-David et al., 2011).

Brazil “is a big country with highly developed financial markets (its domestic government bond market is the largest in Latin America) and a thriving financial industry” (Brière and Signori, 2013, p. 210). In this country, there are different classes of investment funds. We can highlight fixed income funds, equity mutual funds and multimarket funds. The large number of investment funds is concentrated in fixed income funds, and the second is the multimarket sector. In Brazil, there is not a specific category of hedge funds (Varga and Wengert, 2010), but the category multimarket funds comprises funds that use strategies equivalent to international hedge funds (Joaquim and Moura, 2011; Malaquias and Eid, 2014).

In this context, multimarket funds represent the largest category of funds related with variable income in Brazil, following ANBIMA classification. Since 1994, there was an expressive increase in the Brazilian investment funds industry (Milani and Ceretta, 2013; Malaquias and Eid, 2014). When studying data from emerging economies, it is important to consider the effect of inflation, since it represents a serious risk and can affect economic activity (Brière and Signori, 2013; Narayan and Narayan, 2013). The very high inflation rates of Brazil (Narayan and Narayan, 2013) justify the consideration of this characteristic in quantitative models used to understand the dynamics of its financial market.

Firms from emerging economies suffer from different challenges in comparison with those located in developed countries. One example could be the transaction costs, which tend to be higher in developing countries (James, 2002) and weaker institutional environments (Du and Sim, 2016). The development of a given financial sector has a significant effect on economic variables, such as income distribution (Gimet and Lagoarde-Segot, 2011). Furthermore, the development of banking systems is positively associated with economic growth in developing countries (Aker and Mbti, 2010), especially when we observe that banks represent the main source of external financial resources for enterprises (Du and Sim, 2016). Brazil is one of the high performing emerging economies in the world (Narayan and Narayan, 2013) and has the largest banking system in Latin America (Tabak and Staub, 2007). Thus, a better understanding about investment funds in this region can contribute to improvements in financial systems and efficiency in resources allocation.

2. Theoretical framework

2.1. Efficient market hypothesis (EMH)

The wide range of investment funds competing in the capital market, as well as the prices of market shares, should reflect most (if not all) of the information available to the public (Elton et al., 2012). Fama (1970) was one of the major precursors of market efficiency studies. According to the author, EMH concerns information, not only the type of information but also the quality and speed with which it is spread among investors.

Fama (1970) classified the market efficiency into three categories, as follows: (1) previous prices; (2) previous prices and all published data in the market; and (3) previous prices, published data, and private information. He also proposes that these three categories together can help to examine the information flow in the market through the three forms of EMH: the weak, the semi-strong, and the strong forms, respectively.

In later work (Fama 1991), the author reviews the concepts of market efficiency and restructures the ways of dealing with it using other classifications. He reclassified the “weak efficiency test” as “forecast returns test”, the “study of semi-strong efficiency” as “event study” or “study announcements”, and finally the “strong efficiency test” as “private information test”.

Although Fama (1998) accepted the anomalies, he stated that the market would continue to be efficient as this anomalous behaviour would be gradually offset by the influence of arbitrageurs in the market, making price levels return to informational levels, which are disclosed and known to everyone involved. In this study, this anomalous behaviour or anomalous market is called Calendar Effect, whose concept will be discussed in the next section.

2.2. Calendar effect

According to Lo (2007), the greatest provocation regarding Market Efficiency is the presence of anomalies, that is, a stable model for asset return which is trustworthy, significantly known, and without explanatory power. The stable model and the confidence level are considered to be likely to happen, whereas the known no-explanatory power refers only to the fact that investors can take advantage to have abnormal returns (Lo, 2007).

The main evidence unfavourable to EMH can be classified, according to Fama and French (1992), Lemos and Costa (1995), and Bruni and Fama (1998) as Calendar Anomalies. Carvalho and Malaquias (2012) state that calendar anomaly is characterized as stock returns showing temporal patterns, such as higher or lower returns in a given day, week, month, or year (Carvalho and Malaquias, 2012).
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