



On the behavioral differences between professional and amateur investors after the weekend

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Abstract

This paper compares the trading patterns of amateur and professional investors during the days following the weekend. The comparison is based on all the daily transactions of a large sample of both amateurs and professionally managed investors in a major brokerage house in Israel from 1994 to 1998. We find that weekends influence both amateurs and professional investors; however they affect them in opposite directions. Individuals increase both their buy and sell activities, and their propensity to sell rises more than their propensity to buy. Professionals on the other hand tend to perform fewer buy as well as sell trades after the weekend, but unlike individuals, the drop in their activity is almost the same for buy trades and for sell trades.

The results agree with previous hypotheses raised in the literature, which were not directly tested, about the effects of the weekend on the predisposition to trade of individuals and institutions in other markets. We also find that returns on the Israeli Stock Market Index are correlated in general with the behavioral patterns exhibited by the investors in our sample. In particular the returns on the days following the weekend are lower than those in other weekdays in a manner consistent with the behavioral patterns we found.

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1. Introduction

Some explanations of the weekend phenomenon (effect) rely on the differential behavior of amateurs vs. professional investors.² These explanations suggest that individual investors tend to transact more on Mondays and additionally, that they are more likely to sell rather than buy after the weekend.³ According to these theories, the selling pressure by individuals, who are more likely to trade in smaller stocks, may lead to the weekend phenomenon. These authors propose that individual investors are busy at work during the week and consider trading decisions mainly during the weekend and consequently they are more likely to trade (either buy or sell) on Mondays. Professional and institutional investors sometimes use the beginning of the week to plan for the rest of the week and this causes reduced activity. According to these theories amateur investors are more likely to sell rather than buy on Mondays since even when the decision of the individual investor is to buy, because of liquidity considerations the individual may prefer to precede it with a sell.⁴

In this paper we examine the extent to which buy/sell decisions by amateurs and professionals are affected by the weekend, and whether these effects are the same for these two types of investors. In particular we test if there is an overall tendency of amateur investors to trade more following the weekend, and whether this tendency is stronger for sell than for buy transactions. This may shed some light on the above theories of the weekend phenomenon. We also investigate to what degree returns on the Israeli Stock Market Index are correlated with the behavioral patterns of the investors in our sample, and we focus on the correlation between returns after the weekend and the tendencies of our investors to buy or sell during these days.

Our main tool of analysis is a proprietary data set from a large brokerage house in Israel, detailing all the transactions of amateur and professional investors trading through this brokerage house during the period 1994–1998.

The differential effects of weekends on individuals and institutions have been examined before by Abraham and Ikenberry (1994), Brockman and Michayluk (1998), Chan et al.

² The weekend effect appears in multitude of versions. Originally (e.g., French, 1980) it refers to the tendency of average returns following the weekend to be negative. This effect has been observed in many countries (e.g., Gultekin and Gultekin, 1983; Solnik and Bousquet, 1990), and in various types of securities (e.g., Flannery and Protopapadakis, 1988; Johnston-Tashjian et al., 1991). For some interesting explanations for this effect see Lakonishok and Levi (1982).

³ This hypothesis was first introduced by Osborne (1962), and later elaborated on by Lakonishok and Maberly (1990), Miller (1988), and Ritter (1988). Another explanation often suggested is that most brokerage recommendations, made during the week, are buy recommendations, while individual investors usually decide what to sell over the weekend.

⁴ See e.g., Lakonishok and Maberly (1990). This argument is not universally acceptable since an investor could buy early in the day and sell later and still have no liquidity problems if both trades settle in the same day. Whether selling dominates buying for amateurs after the weekend therefore remains an empirical issue, which may depend on the period examined.

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