

Emerging Markets Queries in Finance and Business

# An examination of the calendar anomalies in the Romanian stock market

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## Abstract

The main objective of this paper is to investigate the presence of the-day-of-the-week and the-month-of-the-year effects in the Romanian equity market, using Bucharest Stock Exchange returns between 2000 and 2011. While we observe the presence of Thursday effect in Romanian equity market, we do not find any traditional Monday or January effect for the entire sample period. Furthermore, we observe the January effect during pre-crisis period. However, the subsample analysis provides very different results, perhaps due to increasing degree of capital market maturity, EU accession and other important events, such as the financial crisis. It follows that the Romanian equity market is reasonably efficient, where prices reflect all publicly available information and no trading rule and market timing can be used to generate abnormal returns.

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Selection and peer review under responsibility of Emerging Markets Queries in Finance and Business local organization.

*Keywords:* Day-of-the-week effect, Month-of-the-year effect, Efficiency, Capital market, Return.

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## 1. Introduction

The investigation of calendar anomalies in security markets has been of particular importance for financial economists and practitioners for many decades, as evidenced by a large number of studies in the literature. The

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significance of these anomalies derives from the fact that they carry important implications for capital market efficiency and portfolio formation.

The well-researched and documented anomalies in financial markets are the-day-of-the-week and the-month-of-the-year effects. There are numerous studies that confirm or refute these theories of calendar effects in capital market. The results seem to be contradictory at times, depending on the characteristics of capital markets studied. These characteristics include the size and maturity of the capital market, the business cycle, the organizational structure, the degree of integration and liberalization etc.

In Central and Eastern Europe (CEE), Patev 2003 reports negative returns on Monday in Romania and Czech Republic between 1997 to 2000. Ajayi et al. 2004, on the other hand, test the-day-of-the-week effect in the emerging markets of Eastern Europe in the period between 1990 and 2002 and provide mixed support for the existence of the day-of-the-week effect. Moreover, Tonchev and Kim 2004 examine calendar effects in Czech Republic, Slovakia, and Slovenia and find a very weak evidence of the January and the day-of-the-week effects in these markets. Chukwuogor-Ndu, 2006 studies the day-of-the-week effect in fifteen European financial markets and provides evidence of negative returns on Monday in Czech Republic, Slovakia, and Turkey.

Heininen and Puttonen 2008 report the disappearance of these anomalies in CEE countries after joining EU. In the same sense, Hourvoulidiades and Kourkoumelis 2009 report the disappearance of Monday effect over time in Turkey, Cyprus and Greece. Borges 2009 observes the presence of calendar anomalies in seventeen Western and Central European equity markets during 1994-2007 and Francesco and Rakesh 2010 examine equity markets of Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria, and Slovenia from 1999 to 2009 and observes day-of-the-week effect and high volatility of returns only in Slovenian stock market after EU accession.

In addition, a number of papers investigate calendar anomalies in several particular countries from Central and Eastern Europe Al-Khazali et al., 2008; Floros, 2008; Kenourgios and Samitas, 2008, Tudor, 2006; Henke, 2001; Bohl et al., 2010; Depenchuk et al., 2010; Bildik, 2001; Georgantopoulos and Tsamis, 2010.

In this study we analyze day-of-the-week and month-of-the-year effect using data from BET and BET-C indices of the Bucharest Stock Exchange (BSE), a sample period from 2000 to 2011. This sample is then partitioned into two distinctive sub-periods to compare the day-of-week and month-of-the-year effects during post and pre era of the global finance crisis. While the results provide evidence of Thursday, we do not find any traditional Monday or January effect during 1998 to 2011 period. However, we discover mild January and Monday effects during pre-financial crisis period.

The remainder of the paper is organized as follows. Section 2 presents the literature review and Section 3 provides a brief description of the Romanian capital market. Section 4 describes the data and methodology and section 5 discusses the empirical results. Finally, the last section contains the summary and conclusions.

## 2. Data

The data set for this study consists of the daily closing values of Bucharest Exchange Trading (BET) and Bucharest Exchange Trading-Composite (BET-C) indexes that represent Bucharest Stock Exchange. The period covered is 12 years, from 2000 to 2011. BET is the first index developed by BSE and is the reference index for the Romanian stock market. BET is a free float weighted capitalization index containing the 10 most liquid companies. The BET-C is a composite index of BSE market and reflects the price movement of all the companies listed in the BSE, except for the Exchange Traded Funds. Daily index data sets for both indices are collected from BSE site.

In addition, we investigate the nature of the-day-of-the-week and the-month-of-the-year effect during pre and post 2007 global financial crisis by partitioning our data into two sub-periods: one from January 1, 2000 to June 30, 2007 and the other one from July 1, 2007 to December 31, 2011.

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