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A Study of Turn of Month Effect for BRICS Stock Markets[1]

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Abstract

Turn of month effect indicates that the equity returns are high during last few days of a month and first few days of the next month. Authors investigated the turn of month (TOM) effect for the stock markets of Brazil, Russia, India, China and South Africa (BRICS). The study is conducted for the ten year period starting from April 2009 to December 2022 for all the countries. The research methodology used for analyzing the calendar effect is OLS regression model with dummy variables and volatility models namely GARCH (1,1), EGARCH (1,1) TGARCH (1,1) model. The existing literature has suggested a window of last trading day of month and first four days of the next month for the TOM effect. The results of the study indicated that the anomaly is present for all the countries under investigation. This knowledge of the anomaly can be exploited to formulate trading strategies to achieve higher returns.

JEL Code : G12, G14, G15
Keywords : Calendar anomaly, TOM effect, market efficiency, stock market, BRICS

I. Introduction

FAMA (1970) DEFINED EFFICIENT market as "A market in which prices always "fully reflect" available information is called efficient". The efficient market hypothesis as explained by him states that in efficient markets it will difficult to predict the stock prices. Over past decades many studies have contradicted the efficient markets giving evidence of anomalies including calendar anomalies. The present study focuses on TOM anomaly and the phrase "turn of month effect" was coined by Lakonishok and Smidt (1988)

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suggested by Khan, Aquil, Kazmi and Zaman (2023) that if the anomalies are not following consistent pattern it reflects, markets are following adaptive market hypothesis (Lo, 2004). As the pattern of TOM anomaly has been changing over different time period, the effect could be studied in future with respect to adaptive market hypothesis.

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