ISSN 2279-3097

The Month of the Year Effect of Stock Returns: Empirical Evidence from the Colombo Stock Exchange

D.G.J. Anubuddhika[1], P.W.G. Madhushani[2]

Department of Finance, University of Kelaniya, Sri Lanka[1,2]

anubudd-fe19066@stu.kln.ac.lk[1] , gangam@kln.ac.lk[2]

Abstract

Introduction: The Efficient Market Hypothesis (EMH) assumes that stock prices fully reflect all the available information ensuring stock market efficiency. The prevalence of seasonal effects leads to market efficiencies, enabling investors to reap abnormal returns. The purpose of this study is to investigate the existence of the January effect of the All-Share Price Index (ASPI) on the Colombo Stock Exchange (CSE), which is supported by the previous findings considering how the most significant economic events in Sri Lanka affect this phenomenon.

Methodology: This study examines the stock market anomalies focusing on 10 years of ASPI monthly returns from 2014–2024, which were converted into natural logarithm returns. To address the existence of ARCH effects in the residuals, such as GARCH and EGARCH, apart from the OLS regression model.

Findings: Even though there is a negative January effect, the results indicate that there is a positive July effect for the full period, a positive April effect for the pre-crisis period and a significant negative March effect for the post- and recovery period (after 2022).

Conclusion: According to the results, EMH is a contradiction as the results exhibit that there are anomalies during the full period, pre-crisis, and post-crisis period. In conclusion, CSE is not a weak form efficient suggesting that investors can earn abnormal returns by applying investment strategies observing historical stock patterns.

Keywords: Month-of-the-Year Effect, Colombo Stock Exchange, Monthly ASPI Returns, Seasonal Anomalies, Economic Shocks