

Day-of-the-Week Effect on Trading and Non-Trading Stock Market Returns in India: A Parametric and Non-parametric Testing

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The present study examines the Day-of-the-Week effect anomaly in the Indian equity market during the period of July 1997 to March 2006 using daily data of NSE Nifty and BSE Sensex. The Day-of-the-Week effect implies that the stocks return is not independent of the Day-of-the-Week in which they are generated. If such an anomaly exists, market participants can take advantage of the same and adjust their buying and selling strategies accordingly to increase their returns. Both parametric and non-parametric approaches are applied to detect the Day-of-the-Week effect in both mean and volatility of returns. The results indicate that BSE starts upwards, declines in middle of the week and end downwards while NSE starts downward, upward in middle of the week and end downwards. The study reveals U-shaped intra-day pattern in price volatility in both the markets. The results also indicate differential pattern of movements in mean and variance of trading and non-trading returns across the weekdays. It is also observed that there is an improvement in the Day-of-the-Week anomaly during the period of January 2002 to March 2006.

I Introduction

The presence of anomalies in returns challenges the appropriateness of the Capital Asset Pricing model (CAPM) and the whole theory of market efficiency. Since Fama (1970) introduced the theoretical analysis of market efficiency and proclaimed the Efficient Market Hypotheses, a great deal of research was devoted to investigating the randomness of stock price movements for the purpose of demonstrating the efficiency of capital markets. The existence of calendar or time anomalies is a contradiction to the weak form of the Efficient Market Hypothesis (EMH). The weak form of the EMH states that the market is efficient in past price and volume

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