Preholiday Calendar Regularities in Ireland

BRIAN M. LUCEY
University of Dublin—Ireland

The preholiday anomaly refers to the fact that in many equity markets, a pattern appears that mean returns on the day preceding a public holiday, a day on which the markets are closed to trading, are anomalously high. This has been recognized for some time. Lakonishok and Smidt [*Journal of Financial Studies*, 1988] show that fully 50 percent of the cumulative rise in the Dow Jones may be attributed to preholiday returns and posit a different causal mechanism as between the well-known weekend effect, stocks closing high on a Friday and opening low on a Monday, and holiday effects. Although the two regularities share a characteristic of the exchange being closed, the preholiday returns are between two and five times greater than preweekend returns. This evidence has been confirmed by Ariel [*Journal of Finance*, 1990] and Brockman and Michayluk [*Quarterly Journal of Economics and Business*, 1997; *Applied Economic Letters*, 1998].

Little work on the holiday effect outside the U.S. has been undertaken, with the exception of Arsad and Coutts [*Applied Economic Letters*, 1996] and Kim and Park [*Journal of Financial and Quantitative Analysis*, 1994], with the latter finding that in large part, the preholiday rise was driven by local as opposed to international effects. No convincing explanation has been adduced to explain the preholiday rise. The evidence is that although equity markets typically fall postholiday, this fall is not sufficiently large to offset the preholiday rise.

The Irish stock market has been little studied. This may be due partially to the unavailability of adequate data until recently. Market value quartile indices, as well as the official market index, a total returns version of this, and others were analyzed to ascertain whether the holiday-effect existed and, if so, whether or not it was due to local or international influences. As is typical in this literature, analysis was conducted by means of a two-tailed t-test of the equality of means as between days preceding a holiday and otherwise.

Most of the index studies show a positive preholiday mean return, but a number of indices do show negative preholiday returns, including the official market index. However, the negative returns generally disappear with a 5 percent trim of the data. International evidence overwhelmingly favors a positive preholiday effect, with only Agrawal and Tandon [*Journal of International Money and Finance*, 1994] finding a negative return in Brazil.

The equality of mean returns cannot be accepted for any index regarding holidays in general or uniquely Irish holidays. The variances of a number of indices, both for general and uniquely Irish holidays, as between preholiday and regular days, would seem to be statistically similar. This further strengthens the anomaly—if the risk profiles were similar, one would also expect the returns to be. The evidence indicates that, as from previous studies, local effects dominate international effects in preholiday returns. (JEL G15) *Atlantic Econ. J., 29(4): p. 473, Dec. 01.*