



## A Potential Challenge to the Market Efficiency of the Philippine Stock Exchange: Day-of-the-week Effect

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**Abstract:** Financial markets are often found to exhibit uncanny behavior despite being recognized as highly efficient. One well documented behavior pertains to the day-of-the-week effect. Earlier studies reveal significant negative returns of Mondays, prompting some researchers to call the phenomenon "Monday" or "Weekend" effect. This occurrence, supports the existence of inefficient markets which can provide investors and speculators opportunities for arbitrage. This anomaly poses a distinct challenge to the Efficient Market Hypothesis (EMH) as applied to the behavior of stock prices in the Philippine Stock Exchange (PSE), particularly in a period spanning the ongoing modernization when the PSE started embarking on state-of-the-art systems improvement aimed at enhancing information disclosure and integrity of market transactions. Three non-parametric procedures are utilized to test the existence of the day-of-the-week effect using contemporary data via a one-way classification experimental lay-out applied on the overall PSE index and on the indices of all of its six subsectoral markets. These procedures include the Kruskal-Wallis, Steel-Dwass-Critchlow-Fligner Multiple Comparison Procedures and the Bonferonni Correction approach. These techniques employ cutting-edge non-parametric statistical procedures that include a level of significance correction to obviate the possibility of "false positive" outcomes in the pair-wise multiple comparison tests of trading day effects. Results reveal the non-existence of the day-of-the-week effects on the main index, as well as on the sub-sectoral indices. The findings further support the empirical validity of the EMH, lending credence to the efficacy of the modernization program. Hence, the potential challenge to the weak form market efficiency of the local stock market posed by day-of-the-week effect does not exist during the modern contemporary period

**Keywords:** Day-of-the-week Effect; Efficient Market Hypothesis; Philippine Stock Exchange; Non-parametric Methods