Timing of Calling Parliamentary General Elections and the Behavior of Stock Return: With Special Reference to Colombo Stock Exchange

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The present study was carried out with the objective of finding out the existence or non-existence of any predictable patterns within the behavior of ASPI, MPI and S&P SL 20 indexes at the Colombo Stock Exchange in Sri Lanka, in response to the timing of calling Parliamentary General elections. Though, the term of office of the parliament within the context of study is six years, the Executive President of the country bears the authority to dissolve the parliament upon the completion of one year period after the formation. Hence, both timely and early held elections were experienced by the electorate. Consequently, the shock brought by the announcement and results release of scheduled and unscheduled elections may differ on the behavior of stock returns. Further, the present study was theoretically supported by the Efficient Market hypothesis (EMH) of which the underline concept informational efficiency of the capital markets. The sample period of the study was from year 1990 to 2015 and All Share Price Index, Milanka Price Index and S&P SL 20 Index were utilized for the data collection. Descriptive statistics and Event study methodology were adopted for the analysis.

The results obtained revealed wider fluctuations of the Average Abnormal Returns (AAR) on both indexes on and around the announcement and results release of early elections. Meanwhile, the behavior AAR on ASPI and MPI /S&P SL 20 at the calling and announcing results of timely elections also indicated up and down movements around zero. The Cumulative Average Abnormal Returns (CAAR) on both indexes, under the announcement of timely elections, illustrated a positive movement during the pre-event window and a downward movement during the post-event window and vice versa under early held elections. Accordingly, the behavior of stock return suggested the possibility of identifying lucrative trading strategies during the investigation window of the early held parliamentary general elections.

The present study exhibited that the political events can bring about both positive and negative information to the market. Further, the authors emphasize the importance of political stability on the success of the operations of the stock market. Furthermore, the abnormal returns identified provide evidences on the predictability of stock returns during the periods of having parliamentary general elections.