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Exploring price gap anomaly in the Ukrainian stock market

This paper analyzes price gaps in the Ukrainian stock market for the case of UX index over the period 2009–2018. Using different statistical tests (Student's t-tests, ANOVA, Mann-Whitney test) and regression analysis with dummy variables, as well as modified cumulative approach and trading simulation, the authors test a number of hypotheses searching for price patterns and abnormal market behavior related to price gaps: there is seasonality in price gaps (H1); price gaps generate statistical anomalies in the Ukrainian stock market (H2); upward gaps generate price patterns in the Ukrainian stock market (H3) and downward gaps generate price patterns in the Ukrainian stock market (H4). Overall results are consistent with the Efficient Market Hypothesis: there is no seasonality in price gaps and in most cases there is no evidences of price patterns or abnormal price behavior after the gaps in the Ukrainian stock market. Nevertheless, the authors find very strong and convincing evidences in favor of momentum effect on the days of negative gaps. These observations are confirmed by trading simulations: trading strategy based on detected price pattern generates profits and demonstrates overall efficiency, which is against the market efficiency. These results can be interesting both for academicians (further evidences against market efficiency) and practitioners (real and effective trading strategy to generate profits in the Ukrainian market market).

Keywords: Efficient Market Hypothesis, market anomaly, momentum effect, price gaps, reversal pattern, seasonality, stock market, trading strategy