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## **PREDICTABILITY OF SHORT-HORIZON RETURNS IN THE SRI LANKAN STOCK MARKET**

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### **ABSTRACT**

Research on the predictability of short-horizon returns in developed markets has shown that daily, weekly and monthly returns are predictable from past returns, and that the predictable variation is a small part of variance of returns. In order to provide evidence from an emerging stock market, this paper examines the autocorrelations of daily, weekly and monthly returns of the Colombo Stock Exchange in Sri Lanka in the 1985-1995 sample period using data for market and sector indices. The study finds significant autocorrelations in the order of 50 percent and  $R^2$ s of about 30 percent in the daily market returns for the 1991-1995 period. Strong evidence of predictability of monthly returns of sector indices is also found for the 1991-1995 period. The evidence rejects the random walk model of stock returns for the market indices and most sector indices. The results need to be cautiously interpreted due to the existence of potential biases in autocorrelations induced by infrequent trading.