

Does mean reversion occur in selected African stock markets?

ABSTRACT

This study examines the mean reversion of two Emerging Markets (Egypt and South Africa) and five Frontier Markets (Kenya, Mauritius, Morocco, Nigeria and Tunisia) by examining the stationarity of stock prices using several panel unit root tests. Empirical results show that the unit root tests (ADF, GD-GLS and PP) cannot be rejected for most of the stock prices in this study. However, the Kwiatkowski-Phillips-Schmidt-Shin (KPSS) test, which has more power than ADF in detecting unit root, however, is only able to identify in Egypt, Kenya and Nigeria which are more flexible enough to revert to its long run equilibrium. Due to the limitation of Univariate Unit Root Tests, we resort to panel unit root tests for more reliable findings. The Panel Unit Root Tests showed evidence of stock price in these countries is rejecting the random walk hypothesis. Therefore, there is an evidence of mean reversion in these markets. As a consequent, shocks to the prices is temporary effect, and the movement of stock prices in this study is predictable. Investors may consider the past information and behaviour in the markets to develop their trading strategy to beat the market.