

Time Of The Season For Nothing

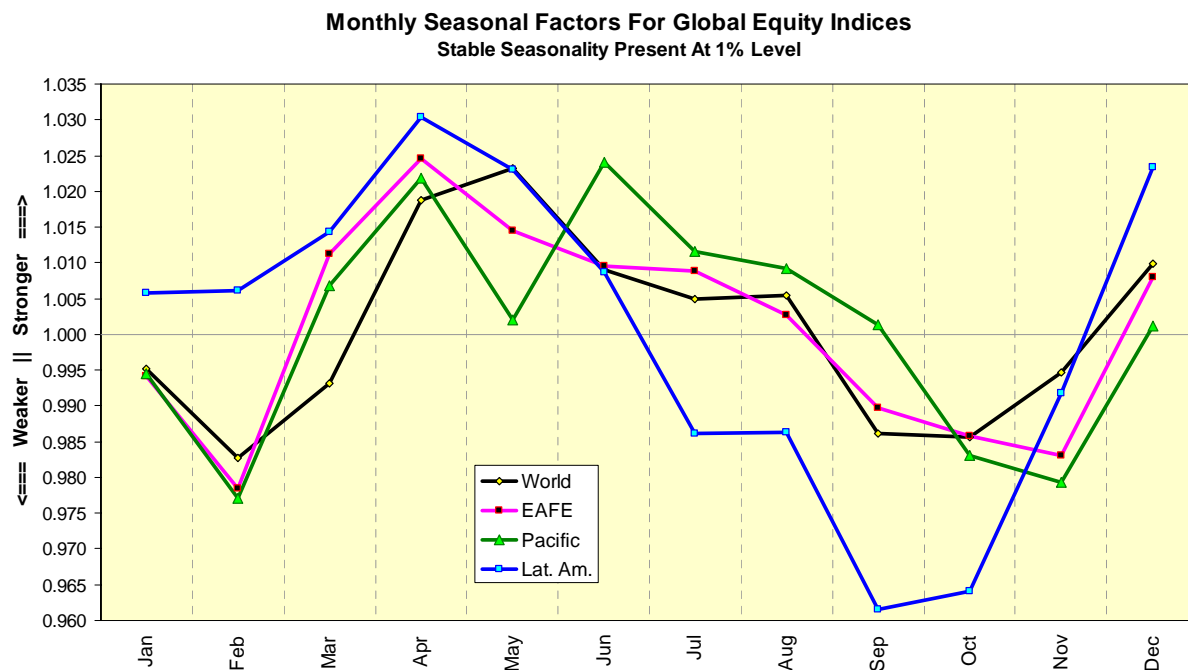
“What’s your name? / Who’s your daddy? / Is he rich like me?” – The Zombies, *Time of The Season*

In another twenty years, nursing homes and retirement communities across the land will be fielding traveling sing-along teams filled with grandfathers certain their command of classics such as the Zombies’ *Time of The Season* is an acceptable substitute for, well, you know. If we blow Social Security to smithereens now, we can spare ourselves the horror of watching this later as everyone will have to work their way into the hereafter.

Speaking of seasonality, we are heading into that time of the season when crashes run high. Is he rich like me? Only if he loaded the boat with put options, inverse ETFs, double-leveraged inverse ETFs and a healthy dollop of lawyers, guns and money. That makes this as good of a time as any to examine the seasonality of a number of global indices priced in local currency terms by MSCI-Barra.

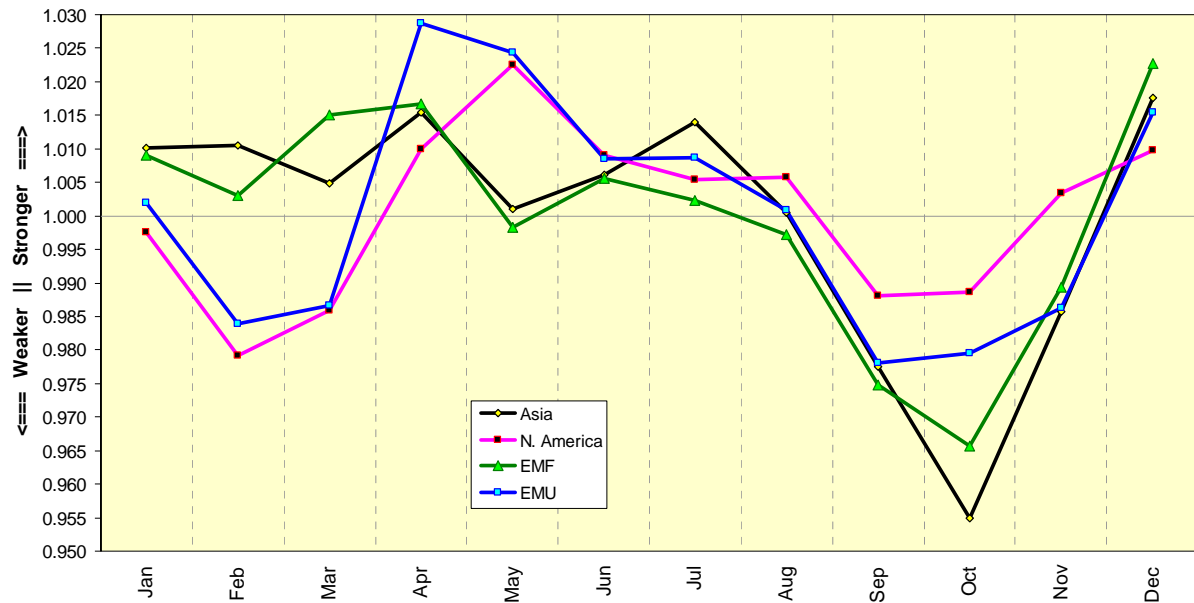
Seasonal adjustment is more than simply calculating the average returns over a given month or quarter. No, the process decomposes time series in the trend, cyclical and irregular components and produces a series of adjustment factors, displayed below. Factors greater than 1.00 indicate seasonally strong months; factors lower than 1.00 indicate seasonally weak months. Like all statistical processes, tests for significance are run to assure ourselves that even if the results are worthless, they are statistically significant garbage, sort of like value-at-risk but cheaper.

Eight indices were examined going back to December 1998. Those with stable seasonality at a 1% confidence level include the World, the Europe, Australasia and Far East (EAFE), the Pacific and Latin America. These are accessible through many instruments, including ETFs such as the CWI and EFA.



The quartet whose seasonality is not stable includes the Asian, North American, Emerging Markets (basis of the EEM exchange-traded fund) and European Monetary Union indices; one cannot help but notice this group contains the vast majority of the world’s stock market capitalization.

Monthly Seasonal Factors For Global Equity Indices
 Stable Seasonality Not Present At 1% Level



Whether the results are statistically significant or not, it is hard to miss the autumnal dip and the peaks at both year-end and April-May. The real question, of course, is why this should be so for any reasons other than year-end money flow patterns. When the U.S. was a more heavily agricultural economy, October crashes were sort of explained away by rising credit demands for the harvest; this ignores the rising credit demands for spring planting. Moreover, as the World index has two hemispheres, or at least it did at last count, why don't we see a crash-pattern in the Austral spring?

Some seasonal rules seem to work well; the shibboleth of "sell in May and go away" has applied many times in recent years. Others, like the vaunted January Effect that was a previous generation's answer to the Hindenburg Omen, disappeared as soon as the pattern was recognized and traders tried to front-run it. The "why" of all this remains, to me at least, one of life's great mysteries. Do I think we are headed for two month's of pain and suffering because the calendar now reads, "September?" No; as a card-carrying economist I prefer superstitions of a different kind.