Economics | December 10 2012

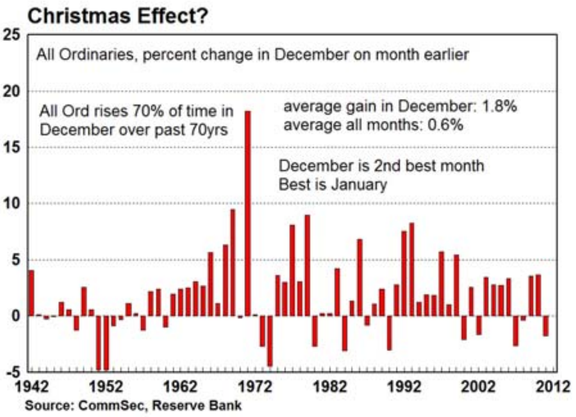
The Santa Claus Effect

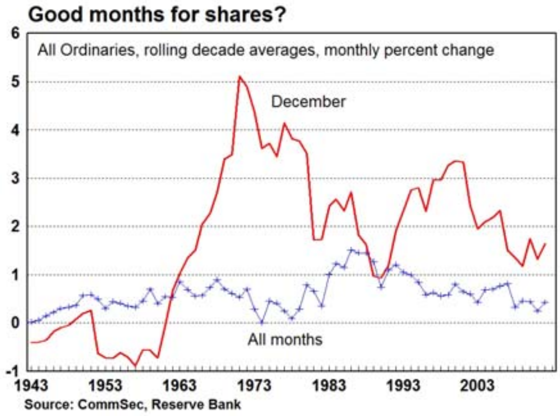
Financial issues & trends

- **Is there a Santa Claus effect? CommSec has always been sceptical about research showing whether there is a 'right' time to be buying shares. But we decided to re-visit the data, dissecting monthly figures on the sharemarket over the past 70 years to assess whether there are consistent trends on 'good' and 'bad' times to buy stocks.**
- **Consistency is the message: While there is evidence to suggest that there have been 'good' and 'bad' months to buy shares, there have been subtle shifts in the out-performing months over time. But, if there is a message to come out of the research, it is the value of consistency. When measured in rolling decade averages, the All Ordinaries has never fallen in records stretching back 70 years.**

The Santa Claus Effect – myth or reality?

- Is there a Santa Claus rally? That is, does the sharemarket generally rise in the lead-up to Christmas? And more generally are there 'good' and 'bad' months to buy shares?
- Clearly there is always a lot going on in the domestic and global economies to affect sharemarkets. And corporate news is always evolving. But the data over the past 70 years does indeed show that the Australian sharemarket generally performs better in December than other months of the year.
- Actually the stand-out month over the past 70 years has been January, with the All Ordinaries rising in 50 of the 70 years and gaining on average in the month by 1.9 per cent. But not far behind is December, rising 49 times in the past seventy years and lifting on average by 1.8 per cent in the month.
- By comparison, the average monthly gain in the All Ordinaries index over the past 70 months has been 0.6 per cent, so December and January have clearly out-performed over time.
- It's important to note that this out-performance is by no means consistent, and that supports our scepticism about whether you can time your entry and exit points into the sharemarket. Over the past decade, the sharemarket has risen in January on only 5 occasions, hardly indicative of a decisive trend. In fact the apparent strength of the sharemarket in January owes a lot to its out-performance in the 1940s and 1950s.
- But the interesting point is that December has indeed been a consistent out-performing month over time and





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certainly the best month to buy shares over the past 20 years. And if you track back at decade intervals starting at the last 20 years to the past 70 years, December has been the number one month.

- So far in December 2012 the All Ordinaries has gained 0.8 per cent.

Best & Worst Months For The Sharemarket
Past 70 years, All Ordinaries

	Up months	Ave % gain
January	50	1.9
February	36	-0.2
March	40	0.4
April	47	1.7
May	46	0.6
June	31	-0.1
July	43	1.2
August	43	0.6
September	33	-0.7
October	42	0.3
November	37	-0.2
December	49	1.8

Source: CommSec, iress

The 'Easter effect'?

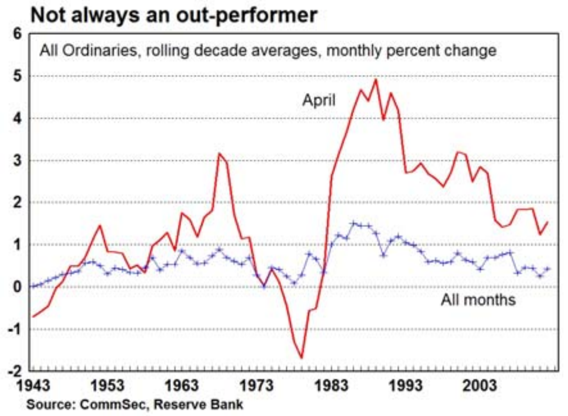
- But there is another surprise. While there is evidence pointing to a 'Christmas effect' or 'Santa Claus rally', the other month that consistently out-performs – that is, the month where the sharemarket tends to rise – is April, closely followed by May. Over the past 30 years, April and December have been the best months – the All Ordinaries has lifted 23 times in April and 22 times in December.
- Looking at the entire 70 year timeframe, the All Ordinaries has lifted 47 times in April, close behind January and December, and the average gain in April has been 1.7 per cent.

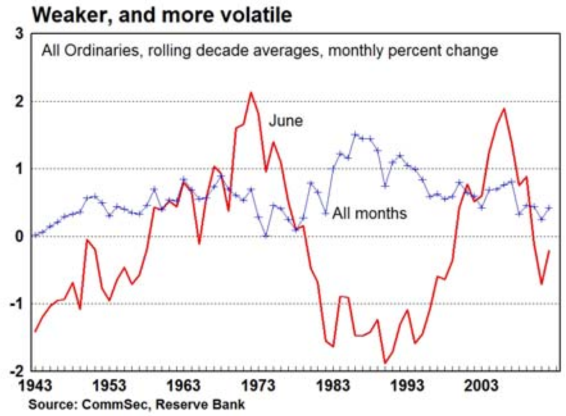
The Under-performers

- There is one month that has consistently been an under-performing month on the sharemarket – June. Over the past 30 years the All Ordinaries has lifted just 11 times in June and over the past 70 years, the sharemarket has only lifted 31 times in the month of June. There actually was a bright period for June – in the 1960s. But apart from that period, June has been an under-performer.
- On average over the past 70 years, the All Ordinaries has fallen 0.1 per cent in June. The other weak months over the past 70 years have been September (-0.7 per cent on average); and February & November (-0.2 per cent on average).

Explaining gains or losses is the hard part

- But why would the sharemarket tend to do well at certain times of the years? Is this a case of "lies, damned lies and statistics"? As always with any economic or financial data, you need a long time series before you can come up with definitive result. And even with 70 years of data, we are far from convinced.
- Ahead of holiday periods such as Christmas and Easter it would be expected that there would is a little more optimism or more relaxed feelings by investors. And the occurrence of holidays or general feeling of optimism at the start of a new calendar year may explain gains over January. Still, as we noted above, optimism in January was more apparent in the distant past than the more recent period.
- Of course our analysis focusses on the construct of 'months'. Perhaps if you had rolling 20-day or 30-day averages it would be more instructive. Perhaps. Certainly the sharemarket has tended to under-perform in November, and then out-perform in December and January, before slipping again into the red over February.
- So, as traditionally observed on the markets, if there is a period of above-average strength, you can bet over time that there is some 'pay-back'. That is there is a 'mean reversion' – a tendency for performance to gravitate to





some longer-term average.

What are the implications for investors?

- Is there a 'good' or 'bad' time to buy shares? Certainly the data shows that December, January and April have been strong months in the past. And June, February, September and November have generally been weaker months over time.
- But as analysts always warn, we shouldn't assume that the past will always be a good gauge on the future. Consistency of investment usually trumps attempts to "time" the market.
- If you regularly accumulate shares over time – and provided that the economy continues to grow and profits rise – then you would reasonably expect that the value of your investments would improve. But there are no guarantees with any investment. There is no substitute for doing your analysis of individual companies, the broader domestic economy, global influences as well as trends in interest rates and exchange rates.
- We would always love some simple measure or rule to follow that takes the uncertainty out of investing. But when someone comes up with the perfect solution, we'll let you know.

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