

Is There a September Jinx?

Ron Surz 10/7/08

Years ago academics discovered 'The January Effect' and attributed it to the rebound that occurs after tax losses are harvested at the end of the previous year. There also appears to be a September effect, as indicated by the table below. The worst performing month by far is September, losing -.8% on average. Interestingly, January is tied with November for 3rd place in average monthly return. Why are Septembers such awful months?

Perhaps the September effect is behavior driven. Vacations are generally over so everyone is back at their desks. Could it be that the more participants there are in the market the more volatile it becomes? Work conducted by Professor Robert Haugen in his 1999 book "Beast on Wall Street: How Stock Volatility Devours Our Wealth" shows that most market volatility is driven by investor behavior rather than new information. Haugen calls this behavior effect "Price-Driven" volatility as opposed to "Event-Driven", and he attributes the Great Depression to a Price-Driven panic that caused the market crash of 1929. That is, Haugen believes that the Crash of 1929 was not a leading indicator of the Depression that subsequently ensued but rather the CAUSE of the Great Depression.

What do you think? Can market psychology cause another Depression?

Best and Worst Monthly Returns for 1926/ 1 to 2008/ 9

Mo	Best		Worst		Avrag
	Retrn	Date	Retrn	Date	
1	13.4	198701	-7.4	197001	1.5
2	11.9	193102	-17.7	193302	4
3	11.0	192803	-24.9	193803	5
4	42.6	193304	-20.0	193204	1.4
5	16.8	193305	-22.9	194005	6
6	25.0	193806	-16.3	193006	1.1
7	38.2	193207	-11.3	193407	1.7
8	38.7	193208	-14.5	199808	1.4
9	16.7	193909	-29.7	193109	-.8
10	16.6	197410	-21.5	198710	5
11	12.9	192811	-12.5	192911	1.5
12	11.4	199112	-14.0	193112	1.7

Grouped by Average Return

7	38.2	193207	-11.3	193407	1.7
12	11.4	199112	-14.0	193112	1.7
1	13.4	198701	-7.4	197001	1.5
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PPCA Inc, TDA LLC, RCG LLC, and Cainsoft Inc.

78 Marbella

San Clemente, CA 92673

949/488-8339

www.pcca-inc.com

www.tdbench.com

www.rcgcapital.com

www.cainsoft.com