



For Halloween Effect: Get Ready to Buy Stocks in November

Description

Did you know that financial markets can have seasons like the weather? The key idea behind seasonal investing is to invest in certain asset classes or sectors during a time when they are historically favourable (generally generate positive returns) and to avoid investing when they are not historically favourable (generally negative or lower returns). Halloween is a good time to not only load up on candies, but also on stocks. Here's why.

Halloween effect: A rewarding strategy

If you hesitate to buy stocks, you should know that the stock market's best months might be coming.

A strategy known as the "Halloween Effect" – where traders sell their positions in May and return at the start of [November](#) – has been rewarding. The stock market has historically tended to rise more in the six months after Halloween (early November through late April) than in the previous six months (early May through late October). Seasonal investment analysts have generally preferred to be invested equities during this time while taking more defensive investment positions between May and October.

In the largest study of its kind, Ben Jacobsen, professor of finance at TIAS Business School in the Netherlands, and Cherry Zhang of Nottingham University Business School China analyzed the monthly returns of the world's 114 stock markets, going back over more than 320 years. The study found that, on average, stock markets rose 5.1%, or 0.85% per month, from November to April, compared with just 1.1%, or 0.18% per month, between May and October.

Since 1977, the **S&P/TSX Composite Index** has posted a compound annualized gain of 8.19% in the six months starting in early November, according to data from Bloomberg. This compares to an average gain of 1.79% for the previous six months, when investors are supposed to "sell in May and go away," as the adage goes.

The **Horizons Seasonal Rotation ETF**, which reflects this seasonal trend among others, has almost doubled since its launch almost 11 years ago, while the S&P/TSX Composite Index has gained about 40%. The ETF, which trades under the ticker symbol HAC, fills up on stocks around Halloween while

increasing its exposure to cash and bonds during the summer months.

A powerful trend that persists

The **TSX** has gained six of the past eight years on October 31, or the first trading day after Halloween. It's such a powerful trend that it trumps short-term concerns, such as the outcome of a U.S. presidential election or declines in GDP growth.

[Jacobson and Zhang said](#): "Overall, our evidence suggests that the Halloween effect is a strong market anomaly that has strengthened rather than weakened in recent sample periods."

As strange as it may sound, no one is quite sure why the effect seems to persist, even if it does.

Keep in mind that there is no guarantee that the market will rise in any given year. Currently, with the economy grappling with the ravages of COVID-19 and suffering severe damage, the market may well be in bad shape in the near future.

But while it may seem good to buy when everyone else is buying, you might get better returns when everyone is too afraid to buy. As Warren Buffett once said, be "fearful when others are greedy, and greedy when others are fearful."

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