

Price patterns, charts and technical analysis: Temporal Patterns

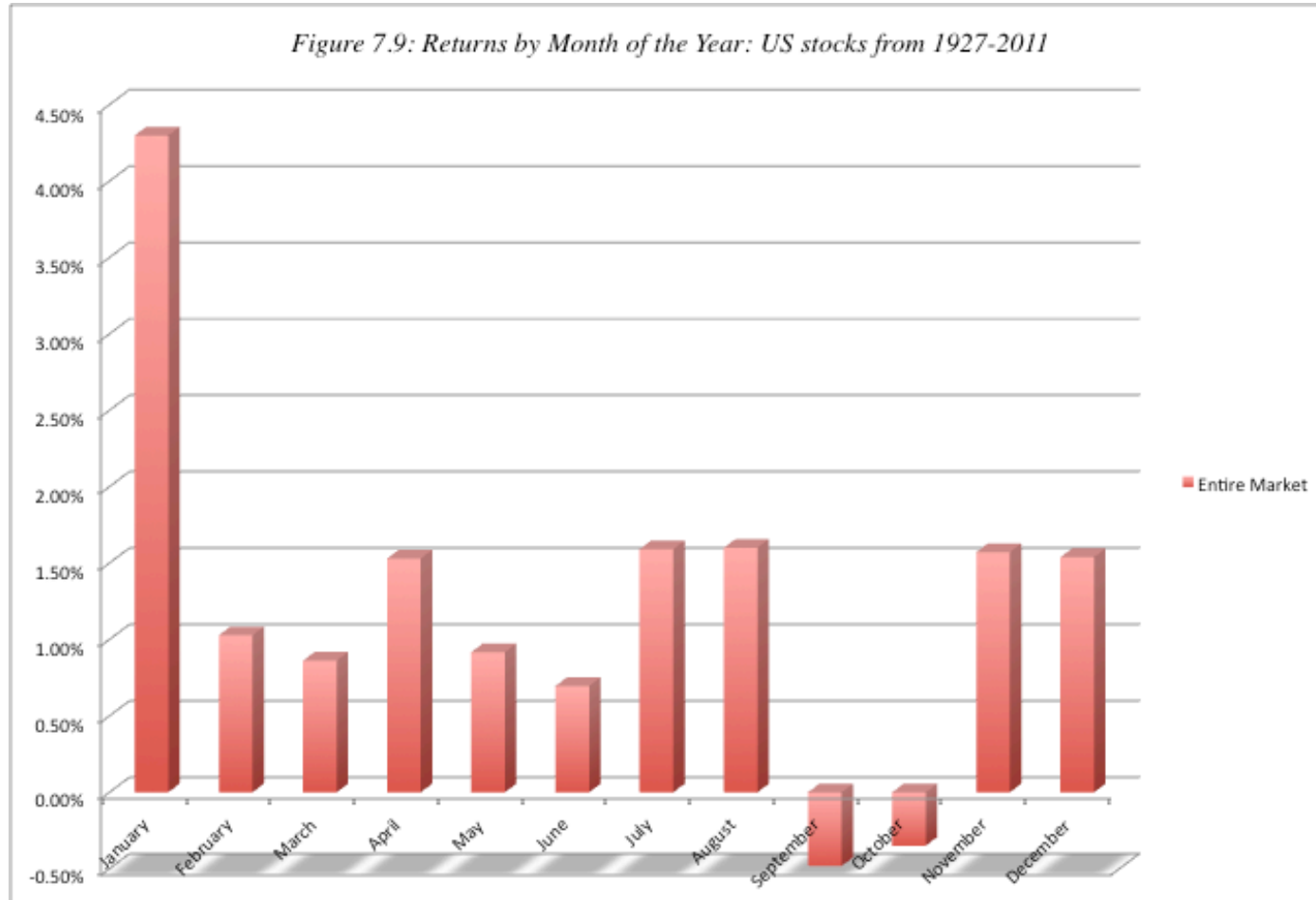
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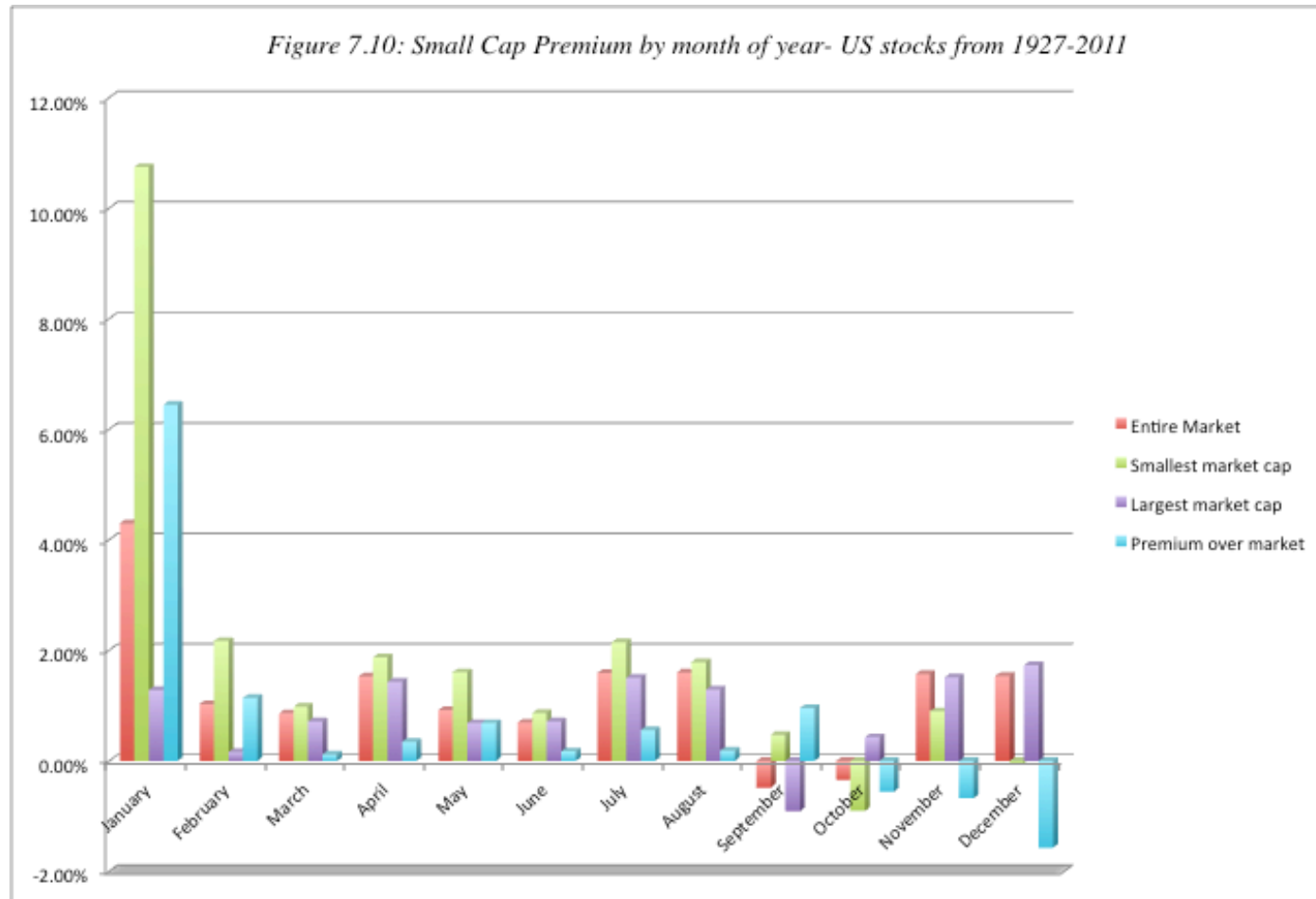
Seasonal and Temporal Effects on Prices

- Empirical studies indicate a variety of seasonal and temporal irregularities in stock prices. Among them are:
 - The January Effect: Stocks, on average, tend to do much better in January than in any other month of the year.
 - The Weekend Effect: Stocks, on average, seem to do much worse on Mondays than on any other day of the week.
 - The Mid-day Swoon: Stocks, on average, tend to do much worse in the middle of the trading day than at the beginning and end of the day.
- While these empirical irregularities provide for interesting conversation, it is not clear that any of them can be exploited to earn excess returns.

A. The January Effect

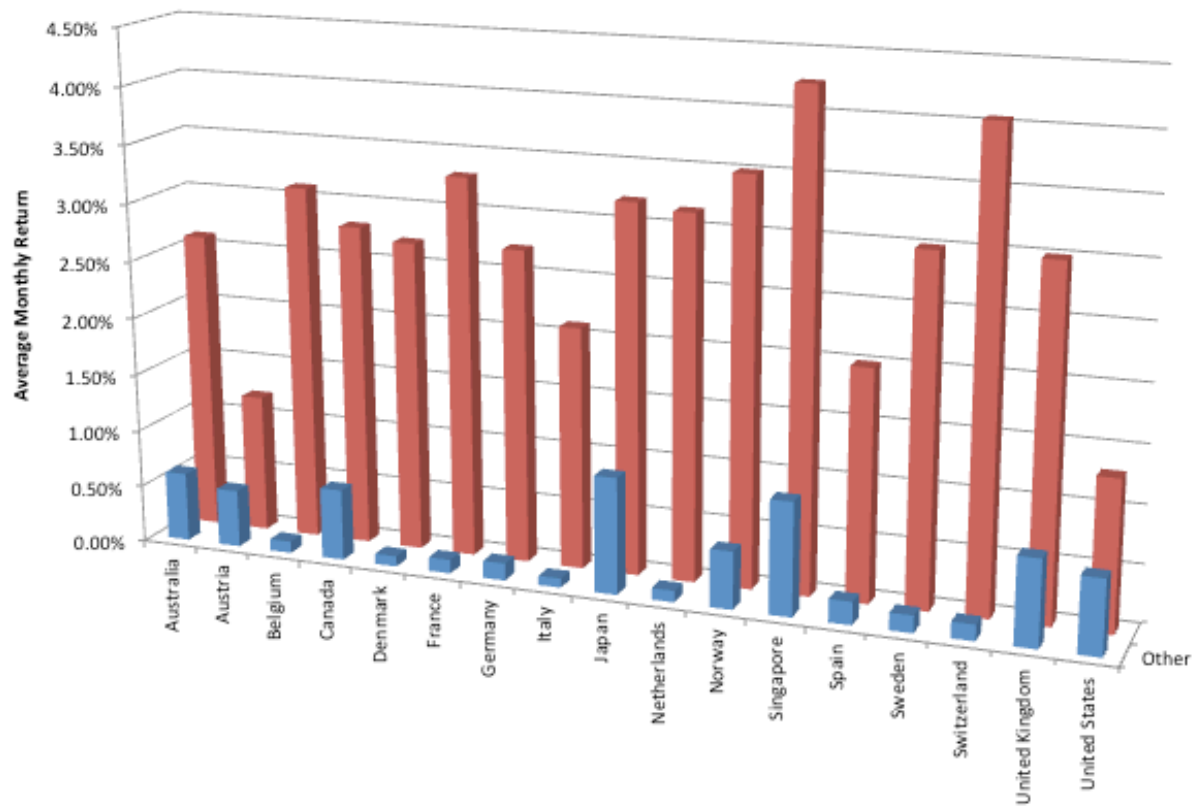


The Size Effect in January



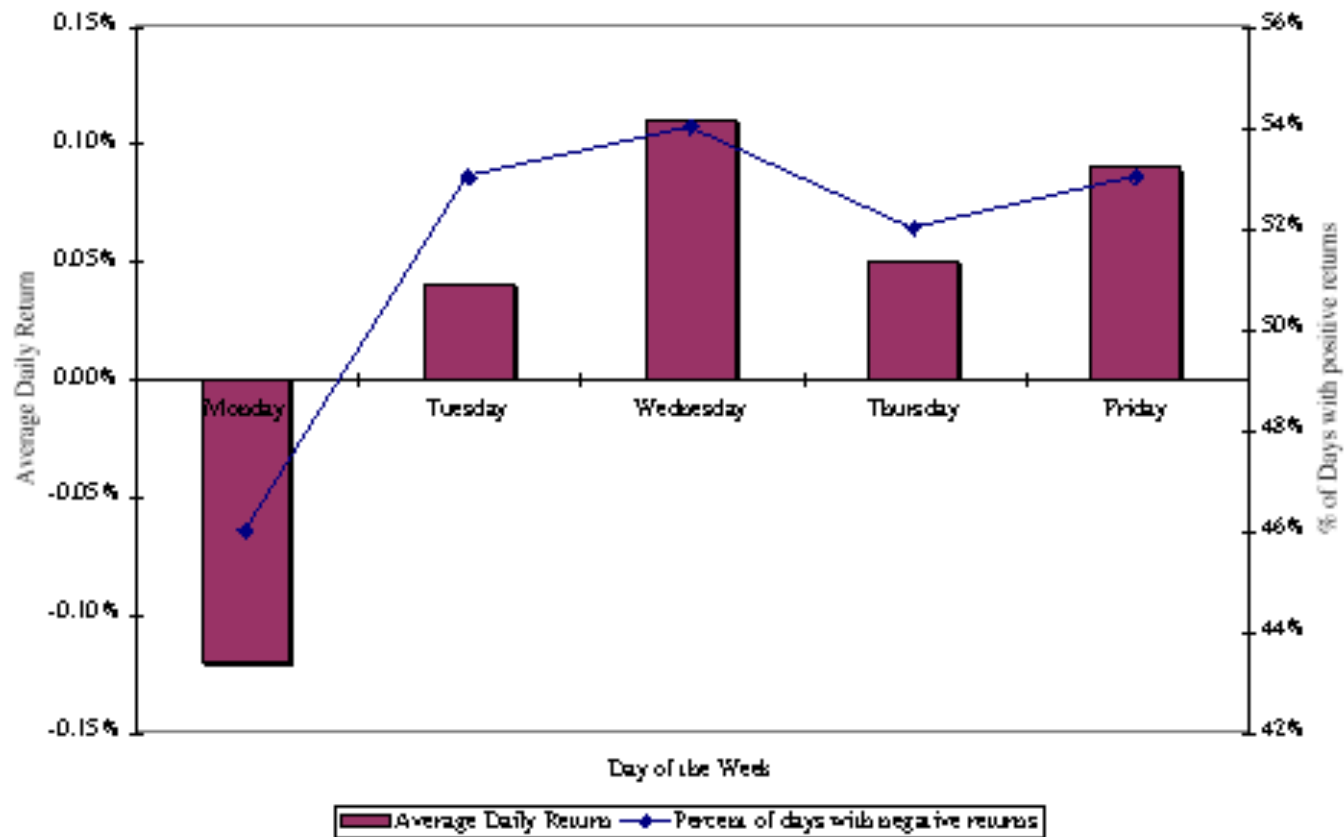
Returns in January vs Other Months - Major Financial Markets

Figure 7.11: The International January Effect

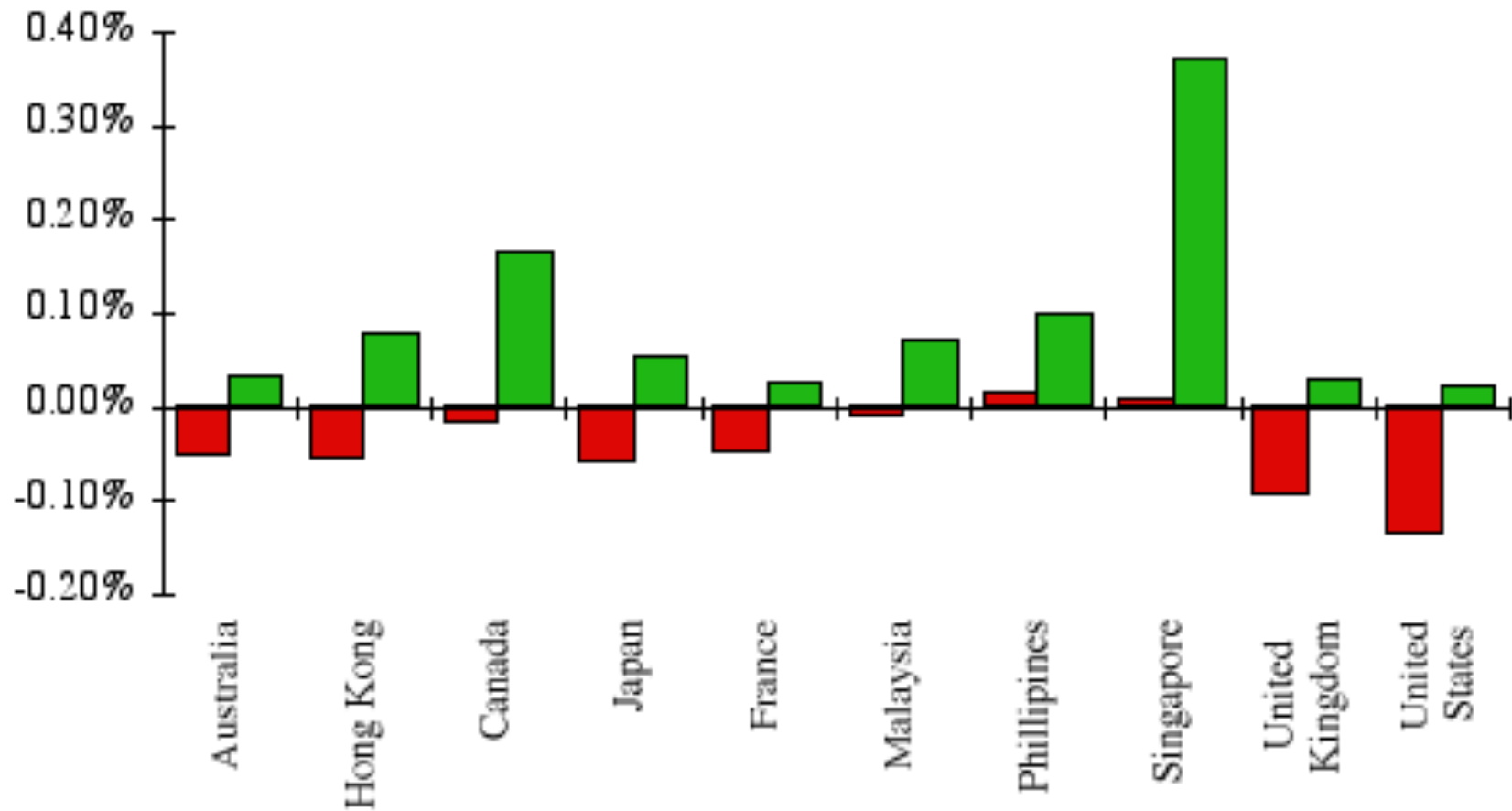


B. The Weekend Effect

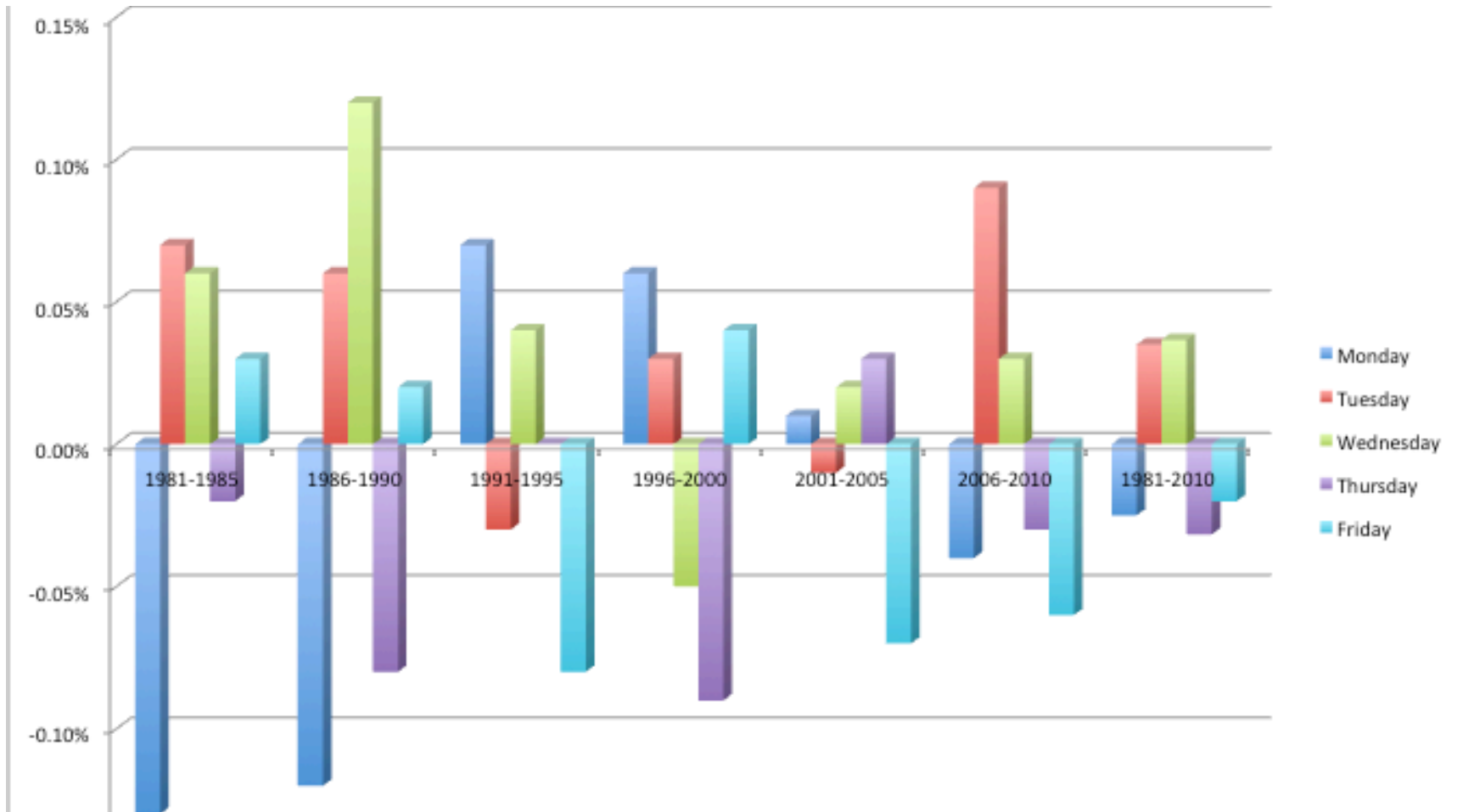
Figure 7.6: Returns by Day of the Week - 1927-2001



The Weekend Effect in International Markets



Has it held up?



The Weekend Effect: Explanations

1. The Monday effect is really a weekend effect since the bulk of the negative returns is manifested in the Friday close to Monday open returns. The returns from intraday returns on Monday are not the culprits in creating the negative returns.
2. Monday effect is worse for small stocks than for larger stocks.
3. Monday effect is no worse following three-day weekends than two-day weekends.
4. There are some who have argued that the weekend effect is the result of bad news being revealed after the close of trading on Friday and during the weekend. Even if this were a widespread phenomenon, the return behavior would be inconsistent with a rational market, since rational investors would build in the expectation of the bad news over the weekend into the price before the weekend, leading to an elimination of the weekend effect.

The Holiday Effect: Is there one?

Figure 7.8: Returns on first trading day after

