

# Seasonality and TSE

CEMIL OTAR

This is risky business. I don't mean investing. What I mean is, it is risky to write about timing. In these bullish markets, if you dare to say "some times are better than other times to invest", you will be shunned in a way similar to what Galileo experienced when he suggested that the earth was not flat.

I was curious to know how seasonality influences investment returns. The results were interesting. My next series of articles will be about this subject.

My study included monthly closing values of the TSE300 index during the last 15 years, starting March 1982 and ending March 1997.

### Results:

From March 1982 to March 1997, the average monthly gain was 1.09% with a standard deviation of 4.1% (i.e. approximately two thirds of the time the monthly fluctuations were between -3% and 5.2%). Each month, TSE300 was higher than the preceding month 63% of the time.

The most effective way of

reducing the risk was to hold the investment for long periods of time. In fact, if you held on to your TSE300 index investment over any 44-month period within this 15-year time span, you always made money. The maximum return, if held for 44 months, was 95.9% (August 1982 to March 1986).

The next best way of reducing the risk was avoiding the "bad" months.

September was the worst month with an average loss of 1.0% and it was down 60% of the time. Next was October with highest volatility (Standard Deviation: 7.4%) Even though June was a negative month, it was up 60% of the time.

December was the best month. It rose an average of 2.6% and was up 93% of the time.

In short, the best months to invest were from beginning of November to end of August.

### Buy-and-Hold:

If you invested \$100,000 in TSE300 index at the end of March 1982, your investment would grow to

\$598,458 by the end of March 1997. The maximum drawdown (loss from the highest dollar value) was 25%.

### Invest November to August only:

If you invested \$100,000 in TSE300 index at the end of October and cashed in at the end of August each year, your investment would grow to \$747,990, a 25% improvement over buy-and-hold. The maximum drawdown was only 15%.

It is also interesting to note that if you invested \$100,000 in TSE300 at the end of August and cashed in at the end of October each year, your investment would have shrunk to \$80,000 at the end of 15 years. The maximum drawdown would be 37%.

No credit was taken for interest income during the time when the money was not invested.

### Conclusion:

If you invest in TIPS, HIPS, index funds and mutual funds that are highly correlated to the TSE300 index, you may want to switch into the safety of the money market funds during the months of September and October. This will reduce your risk by about 40%.

Do I sell my holdings at the end of each August? Definitely not. But if I get new lump-sum investment money in August, I may just wait until end of October to invest in funds that have high correlation to TSE300. My next article will cover seasonality of a few selected mutual funds.

*Cemil Otar, P. Eng., author of "Commission Free Investing: Handbook of Canadian DRIPs and SPPs", is an independent financial advisor with W. H. Stuart & Associates, Phone (905) 889-7170.*

