

Does the weather affect the stock market?

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You can blame the weather for anything – maybe even for shifting the moods of stock market investors and impacting on returns.

Whether the weather really does affect the markets is a question that's been asked by a number of researchers recently. A Massey Finance Professor has just won a \$10,000 international award for his research on the subject.

Professor Ben Jacobsen's paper "Is it the Weather?" confirms that there is definitely a strong seasonal effect in stock returns in many countries: stock market returns tend to be significantly lower during summer and autumn months than they are during winter and spring.

However, says Professor Jacobsen, it is premature to conclude that weather affects stock returns by causing mood changes in investors. "While the effect on the markets is there, we still don't know why."

The research has taken the Barclay's Global Investors Prize for the best paper on Capital Markets and Funds Management with a focus on the Asia-Pacific region. The award was presented to Professor Jacobsen in Sydney at the Australasian Finance and Banking Conference this week.

Professor Jacobsen published the paper jointly with a former colleague at the Erasmus University of Rotterdam, Wessel Marquering. Earlier this year he hit headlines in the business media with research linking oil prices to stock market movement.

The award winning research takes a close look at studies published by other researchers over the past in recent years, that tend to argue that weather influences the mood of investors. It also cites vacation patterns and SAD (seasonal affective disorder).

Professor Jacobsen said he and his colleague had examined the possible explanations for stock market seasonality in some detail and found a strong and robust seasonal pattern.

“However, we show that due to the small difference between the different potential causes, it is not so easy to differentiate between the possible explanations reported. It seems SADS, temperatures and that old market wisdom ‘sell in May and go away’ are all possible explanations.”

Source: Massey University

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