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**Media Release: JANUARY A POOR PREDICTOR OF RETURNS FOR REST OF YEAR**

The poor predictive power of January as a signal for returns for the rest of the year has gained some media attention off the back of one of the worst starts to a year in some time. Dr Shane Oliver, head of investment strategy and chief economist of AMP Capital investors, recently commented in the Financial Standard that “January as the share market’s barometer month has only a one-third success track record...” [Financial Standard, 18 February 2008, page 22]

Finance academics Steve Easton and Sean Pinder from the University of Newcastle and the University of Melbourne respectively recently addressed the issue on a global basis in a research paper funded by the Melbourne Centre for Financial Studies and recently published in the *International Review of Finance*. They examined the relationship between returns from each of the 12 calendar months and the subsequent return over the next 11 months for 45 countries over a data period extending in most cases back to 1973.

“We were keen to put to the test the old Wall street maxim “As goes January, so goes the rest of the year, especially in light of some recent research out of the US that seemed to support the idea. The result is referred to in the academic literature as the ‘other January effect’ to differentiate it from the ‘January effect’ which is the often-reported phenomenon of returns being higher at the start of the year relative to other months.

We found little evidence to support the presence of the effect in the US especially in the last 30 years or so. Moreover, on a global scale, when you compare the predictive power of January returns relative to the other months, we find that 5 out of the other 11 months exhibit at least as strong an effect in at least as many countries as exhibit the “other January effect”. This leads us to conclude that the “other January effect” is really not present at all and reports to the contrary are probably simply catching some momentum effects that are not necessarily dependent upon a particular month of the year.”

**END**

*Melbourne Centre for Financial Studies* is a partnership between public and private sectors, and between industry and academe. Seed funding was provided by the Victorian Government as part of its Financial Services Strategy. Members of the consortium are Melbourne, Monash and RMIT Universities, and Finsia. They have joined together to enhance Melbourne’s national and international reputation for excellence in financial practice, research and education. The Centre facilitates knowledge transfer between, and builds research synergies between, industry and academe by undertaking finance research, and organizing research focused conferences, workshops, public lectures and other educational activities. Financial Regulation is a core research area for the Melbourne Centre.

For more information:

David Michell, Melbourne Centre for Financial Studies, 12/330 Collins Street, Melbourne  
Tel: +61 3 9613 0906; [david.michell@melbournecentre.com.au](mailto:david.michell@melbournecentre.com.au); [www.melbournecentre.com.au](http://www.melbournecentre.com.au)