

Stock returns on London Stock Exchange during the first seven days of November

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1. Introduction

The financial stock markets literature revealed the transformations suffered by calendar effects. There were offered several explanations such as the dissemination of discovered forms of seasonality, the increase of liquidity in the capital markets or the turbulences associated with a financial crisis.

The stocks' behavior during the first seven days of November could be influenced by various factors:

- the "November Effect" linked to the mutual funds' attempts to optimize their taxable capital gains;
- contrarian transactions in the context of stock prices decline in October linked to the "Mark Twain Effect" or the "Halloween Strategy";
- the circumstances responsible for the Intra-Month Effects.

This paper approaches the returns from London Stock Exchange occurring, in quiet and turbulent periods of time, during the first seven days of November.

Three periods of investigation:

- the first period, from January 1998 to December 2006 (relative quiet);
- the second period, from January 2007 to December 2016 (turbulent and with pessimistic expectations);
- the third period, from January 2017 to June 2024 (turbulent).

2. Data and methodology

2.1. Data Description

- daily closing values of four major indexes from London Stock Exchange: FTSE 100, FTSE 350, FTSE SmallCap and FTSE All-Share;
- logarithmic returns;
- the Augmented Dickey – Fuller unit root tests indicated that, for all three sub-samples, the returns were stationary.

2.2. Methodology

To identify the presence of abnormal returns during the first days of November, we use two time intervals:

- F7NOV, including the trading days from 1 to 7 November;
- NF7NOV, that contained the trading days from the rest of the year.

We define a dummy variable (D_F7NOV_t) as:

$$D_F7NOV_t = \begin{cases} 1, & \text{if the trading day } t \text{ belongs to F7NOV} \\ 0, & \text{otherwise} \end{cases}$$

- OLS model:

$$r_{j,t} = \psi_0 + \psi_1 \times D_F7NOV_t + \varepsilon_t$$

where:

- ψ_0 is a coefficient expressing the average of returns for the NF7NOV time interval;

- ψ_1 is the coefficient associated to the dummy variable D_F7NOV_t ; it reflects the difference between the averages of returns from F7NOV and NF7NOV;

- ε_t is the error term supposed to follow a normal distribution where the mean is zero and the variance is a constant.

- Newey & West (1987) corrections to heteroskedasticity and autocorrelation.

3. Empirical Results

For the first sub-sample we obtained, for all four indexes, significant positive values of the ψ_1 coefficient.

In the case of second sub-sample we didn't find, for any of the four indexes, a statistically significant value of the ψ_1 coefficient.

The results of OLS regressions for the third sub-sample indicate that, for all the four indexes, ψ_1 coefficient had significant positive values.

4. Conclusions

The results of this investigation suggest that abnormal high returns could occur in the first seven days of November, but this form of seasonality is sensitive to the external context. In the period January 1998 - December 2006, which could be considered as relatively quiet, in the time interval 1 – 7 November, the average of returns was, for all four indexes, higher than the average of returns from the rest of the year.

This form of seasonality disappeared during the period January 2007 - December 2016, when some extreme events generated major turbulences on the financial markets. Especially the Global Financial Crisis and the Great Recession generated pessimistic expectations among investors, causing sharp declines of stocks' returns.

The abnormal high returns from the first seven days of November came back in the period January 2017 - June 2024. It was another turbulent period, but the intensity of investors' pessimism was not high, as it was between January 2007 and December 2016.