



A Study of Seasonality Based Trading Strategy for Indian Stocks and Indices

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Abstract: A curious seasonality reported in finance is the monthly effect which implies that the mean daily return for stock is positive and higher during the first half of the month than the second half. Another related anomaly is the turn of the month effect which is said to exist when the average daily return at the turn of the month is significantly higher than the daily return on the remaining days of the month. This paper examines seasonality effect in Indian Stocks and Indices by calendar day approach, day of week approach and week of the month approach. The results of all the approaches reveal significantly higher returns on some of the days and period in a month. The day of the week effect is found to be absent in our study. Various explanations for the observed anomalies have been considered based on past studies, but none could provide adequate explanations for the observed return regularities. The introduction of derivatives segment in India may have created a pattern near expiry. However, based on the findings, the study tries to evolve certain trading strategies which could benefit in the decision making of the investors concerned with timing of the stock market.

Keywords: Seasonality, Anomalies, Stock-Market.