Medical Xpress

Fall market jitters a SAD thing, suggests paper from the Rotman School of Management

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It's no surprise to researcher Lisa Kramer that financial market dips and crashes typically happen in the fall.

Her most recent study, forthcoming in *Social Psychological and Personality Science*, shows that people who experience seasonal depression shun financial risk-taking during seasons with diminished daylight but are more willing to accept risk in spring and summer. The work builds on previous studies by Kramer and others, suggesting seasonal depression may be sufficiently powerful to move financial markets.

"We've never, until now, been able to tie a pervasive market-wide seasonal phenomenon to individual investors' emotions," says Prof. Kramer, who teaches behavioural finance at the University of Toronto's Rotman School of Management. Titled, "This is Your Portfolio on Winter," she co-wrote the study with the University of Waterloo's Mark Weber.

The researchers based their findings on a study of faculty and staff at a large North American university. Participants were paid for each part of the study they joined, which included online surveys and behavioural assessments. They also had the option of putting some or all of their payment into an investment with 50:50 odds and where the potential gains exceeded the potential losses, to mimic [financial risk](). Participants who experienced seasonal depression chose more of the guaranteed payments and put less money at risk in winter, but their risk tolerance came more into line with other participants' in summer.

About 10 percent of the population suffers from severe seasonal depression, known as seasonal affective disorder (SAD). However evidence suggests even those who do not suffer from the medical condition of SAD still experience some degree of seasonal fluctuation in mood. Previous research has noted seasonal patterns in stock market returns have been consistent with people avoiding risk in the fall and winter.

"So much common wisdom about economics and finance is built on the notion that we're very rational about making financial decisions," says Prof. Kramer. "But increasingly we're discovering financial decision-making is an inherently emotional process."

The findings have implications for people like financial planners who Prof. Kramer says may need to be more sensitive to seasonal variation in their clients' risk tolerance. Stock traders may also benefit from understanding where their reactions are coming from when dealing with a bad trading day.

"It's important to take a deep breath and make sure that decisions are being made on the basis of objective criteria, rather than emotional criteria," she says.

More information: The complete study is available at: spp.sagepub.com/content/early/ … /15/1948550611415694

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