

Referee Report for “Quarterly Seasonality and the Relative Performance of Momentum Strategies”

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Oct 28, 2015

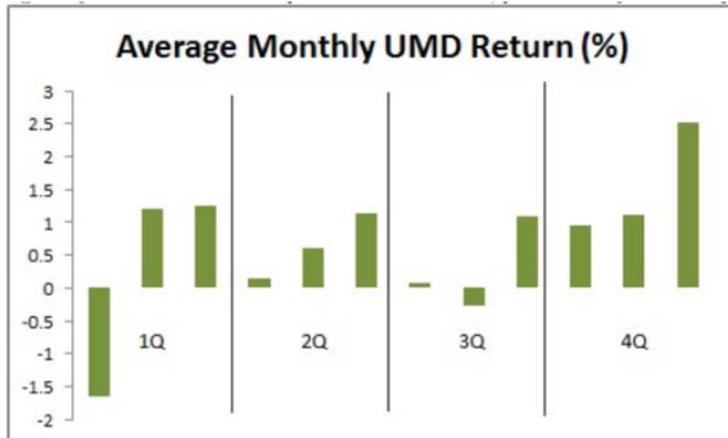
Summary

This paper documents an interesting pattern of the momentum effect: the excess returns to momentum strategies mainly aggregate in the ending month of each quarter. The author further provides an agent-based explanation to this pattern, arguing that fund managers' response to quarterly performance incentives accounts for the seasonal pattern in momentum effect.

Comments

1. Is the quarterly pattern in momentum an end-of-year effect?

Figure 3 in the paper shows that January accrues the largest loss of momentum strategies, and December accrues the largest gain. It seems the average 3-1 quarterly pattern is likely due to the difference between the extremely large gain in December and the huge loss in January.

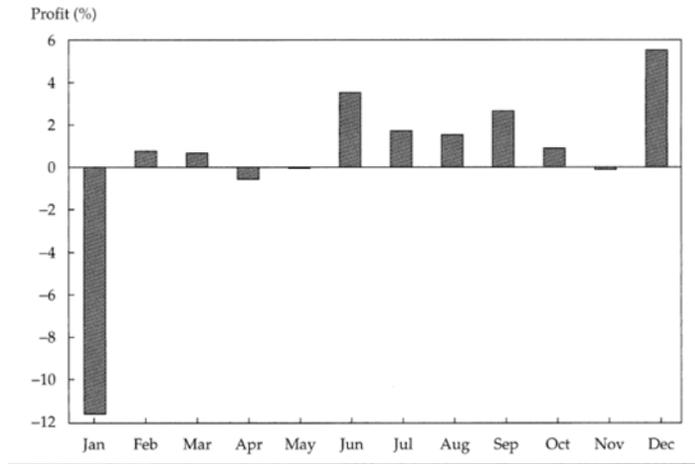


2. How to differentiate from Sias (2007)?

Another paper titled "Causes and Seasonality of Momentum Profits" (R. Sias, Financial Analysts Journal, 63, page 48, 2007) also investigates the seasonality of momentum profits. In Sias (2007), the author also shows that the average monthly return to a momentum strategy is 59 bps for non-quarter-ending months but 310 bps for quarter-ending months. The author attributes this feature to two forces: window dressing by institutional investors, and tax-loss selling at the end of the year. It seems Sias (2007) has

already documented the seasonality in momentum profits, which is very similar to the results in Jordan's paper, as shown below:

Figure 2. Momentum Profits by Month, April 1984–December 2004



As the results in Jordan's paper are so close to those in Sias (2007), I think it is necessary to first justify the contribution, and figure out a way to distinguish the results from those in Sias (2007), before any further discussion.

3. The explanation

Sias (2007) attributes the seasonality to two forces 1) *window dressing* by institutional investors, and 2) *tax-loss selling* at the end of each year. The two effects not only account for the seasonality in momentum, but are also consistent with the large year-ending effect. Jordan (2015), however, only focuses on the window dressing argument. This argument alone seems unable to explain why the seasonal pattern in momentum profits is the strongest at the end of the year.