

# **Executive Summary**

## **Problem and Aim**

Is there a way to outperform the market? Any investor who has invested will be confronted with this question. One strategy that has been gaining increasing attention over the recent decades and which can outperform the market is the value investing strategy. Different strategies believe that there are some cyclical patterns and seasonal effects in stock market returns. For example there exists the old market saying “sell in May and go away, but always remember: Come back in September” which assumes that the stock market performs better in the winter than in the summer. The subject of this bachelor thesis is the investigation how value investing performs, when the timing of the fixed value strategy differs. The primary aim is to test the null hypothesis, which claims that using different time periods to form the value portfolios on price-to-book (P/B) values does not create any significant changes in the performance distribution of the value portfolios in two different Countries.

## **Methodology**

The data for this thesis are collected from the Thomson Reuters DataStream monthly stock files for the thirty-one-year period from the 31.12.1980 to the 31.12.2011. For the investigation, the monthly data of the total return indexes and the P/B values of stocks from the Australian Securities Exchange (ASX) and the Frankfurt Stock Exchange (FRA) are used. The sample for Australia consists of firms which were listed on the ASX and the sample for Germany consists of firms which were listed on the FRA. Different samples for each country are defined and tested. The portfolios for the different samples are formed with two different methods. The holding period for every portfolio is one year but starts at changing periods.

## **Findings**

For all samples the value strategy yields higher yearly mean returns compared to the growth strategy. There is no evidence for a significant distribution in mean returns observable for all samples as long as only the mean differences are considered and the test is not risk adjusted. The data fails to reject the null hypothesis for every comparison of each sample. However, considering the risk with the Sharpe ratio, the results changed for the Australian samples. They report that there is a change in Sharpe ratio values of the different value portfolios. The Sharpe ratio rises for portfolios in the last quarter of the fiscal year, declines after the year change and reaches a low during the second half of the year. The null hypothesis was rejected for the value portfolios that were selected at the first two months of the Australian fiscal year when compared with the value portfolios of the second half (November, December, January, February, March). This effect is less strong when the portfolio selection timing between the portfolios does not differ and just the investment timing. A difference around the fiscal year change is also visible for the German samples between portfolios with different selection timing.

## **Conclusion**

The results do not show strong seasonal distribution of mean returns that could be applied to both countries. Though there are changes around the fiscal year changes. Furthermore, the effect for the Australian market could be analyzed differently by changing the holding periods or changing the selection timing and not the timing of the investment. Such an analysis could help clarifying the effects found in this study. The results of this study could accrue because of tax considerations or a behavioral finance approach like the optimism-cycle hypothesis.

## **Abstract**

Financial literature studies point out the possible existence of a value premium and come to the conclusion that value stocks outperform growth stocks. Most of those studies form their value portfolios by sorting the stocks according to book-to-market (B/M) ratio in the end of the previous fiscal year.

The goal of this thesis is to form value portfolios on the book-to-market ratio with changing formation periods in the Australian and German stock markets and to investigate how the value investing changes, when the timing of the fixed strategy is changed. The main part compares and reports the behavior of the value portfolios with changing formation periods from the Australian Security Exchange (ASX) and Frankfurt Stock Exchange (FRA). The null hypothesis to be analyzed is whether using a different timing period does not create a higher return performance for the value portfolios in those two markets. The results indicate that there is less evidence for Germany for a significant difference in the performance. For the Australian stock market there is an observable cyclical effect when considering the risk with the Sharpe ratio.