

“IS BLASH POSSIBLE IN HEDGE FUNDS? AN APPROACH TO SEASONALITY”

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Abstract

Seasonality and behavior patterns are part of our daily live. Several different studies have demonstrated that seasonality behavior exists in different financial markets, especially in the spot market of equities and bonds. But thus this occurs when we consider the monthly returns in hedge funds indexes? Many market participants have observed that as year goes by a December Spike occurs frequently, and that has permeated that the financial community more or less accept this effect as a common occurrence. This paper intends to determine whether seasonality exists across hedge fund strategies, by comparing, for the period of 1998 to 2008, the performance of the EDHEC indices with another one of the most representative indices of hedge funds, the CSFB/Tremont index, regarding seven main strategies. The results do not reject the hypothesis of seasonality on every strategy, comparing the two data sources, showing that there are significant higher returns in December, as well as lower and negative returns during the months of August, September and October. These results suggest that BLASH is possible in Hedge Funds management.

Keywords: Hedge funds, average monthly returns, annual returns, management incentive fees, seasonality

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