BefinLab

THE RESEARCH LABORATORY FOR BEHAVIORAL FINANCE

BEFINLAB INDEX RECONFIRMS SEASONALITY EFFECT OF BEHAVIOURAL FUNDS IN Q2 2012.

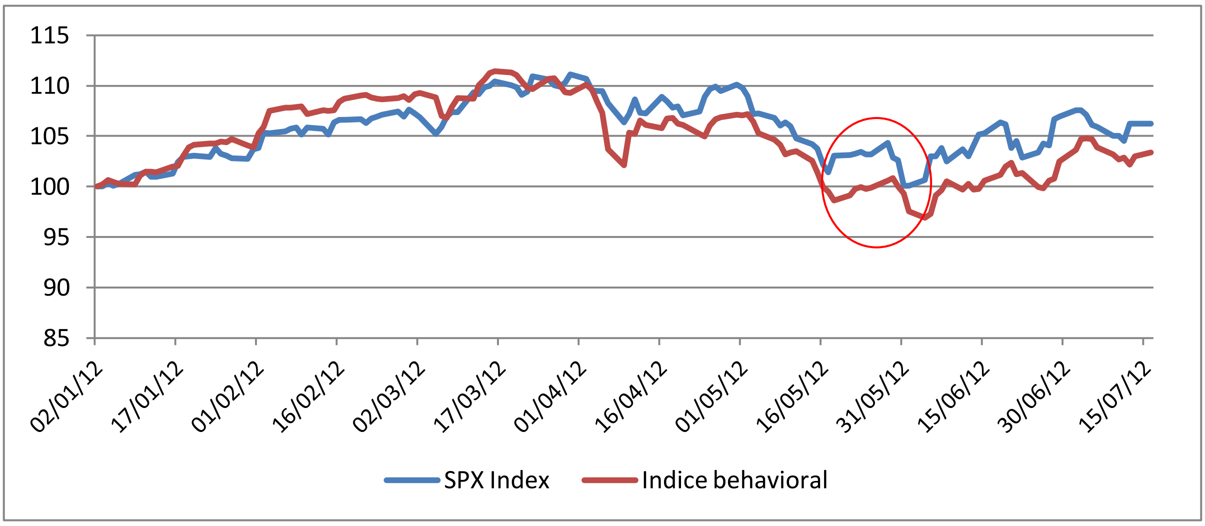
In the April-July 2012 period, the BefinLab index has generally underperformed the benchmark, except for the month of May when a recurring, seasonal rising trend was confirmed. Though remaining in negative territory, the BefinLab index stood at -7.27% as compared to -9.09% for S&P500. The downtrend is mainly attributable to the negative performance of the stock market by which these funds are more influenced than the average sector (see "Applying Behavioural Funds to Investment" by Alessandro Santoni, Lap-Publishing, 2012).

The Research Laboratory for Behavioural Finance, BefinLab, launched the BefinLab Index to track the performance of the leading 28 Behavioural Funds active in the market versus their relative benchmark, the S&P index.

19 funds were considered, managing $12bn assets in total and claiming to apply behavioural finance in their portfolio strategy. Behavioural funds are understood as funds that explicitly define themselves as behavioural in their names or descriptions to clients. In particular, these funds are part of the Fuller & Thaler, JPMorgan AM, Bank Degroff, LVS, Osiris, LGT fund families.

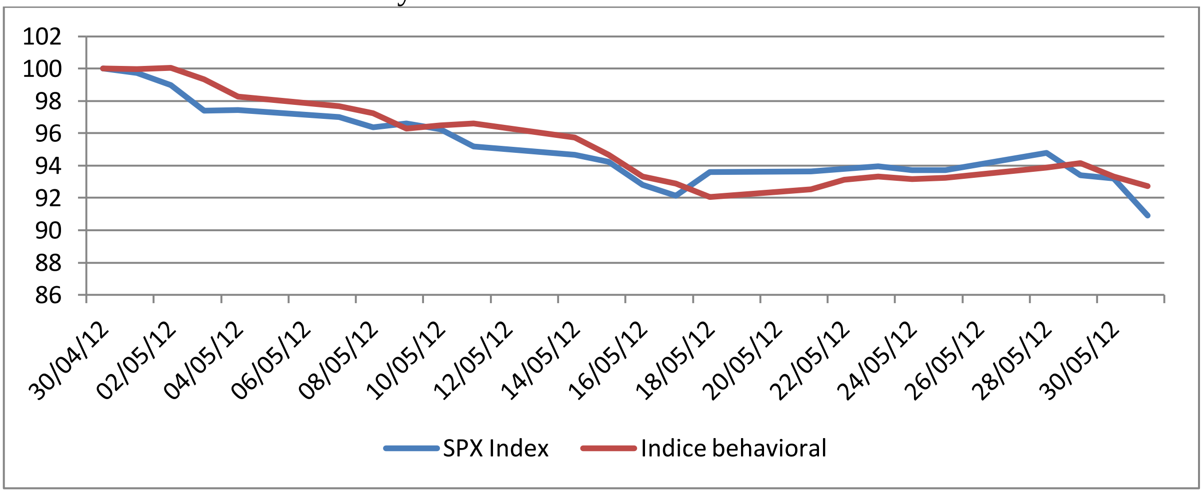
The first chart shows the trend of the BefinLab Behavioural Index vs. S&P 500. The sample considers the time line from 1 January 2012 to 16 July2012. We can see that the index has experienced a declining phase since April 2012, with a slight recovery in May.

Chart 1: BefinLab Index vs S&P500



Source: Bloomberg

Chart 2: BefinLab Index in May



Source: Bloomberg

The second chart shows details for the Index trend in May. The BefinLab Index stood at -7.27% as compared to -9.09% for S&P500.

BEHAVIOURAL FUNDS

Portfolio Managers that apply behavioural finance in their investment strategies implicitly accept that above-average profits are possible if market inefficiencies are properly recognised and analysed under the assumption that psychology-related biases and tendencies cause investors to behave irrationally at times. Analysts and Investors are believed to be slow in recognising new information on earnings surprises, inasmuch as they tend to be overconfident in their prior views, with an inclination to underrate evidence that disconfirms their prior views and overrate confirming evidence. The two main biases at the base of the portfolio managers' theory are overconfidence and anchoring. The most common tools used to take advantage of bias-induced market inefficiencies are: exploitation of the 'winner-loser', 'trend momentum', 'post-earning' effects and insider dealing as information signal.

The Research Laboratory for Behavioural Finance, BefinLab, was established in 2010, as the result of a joint effort by a team of professional traders and research scholars to promote common initiatives in the field of behavioural finance, which require the interaction and collaboration of experts in different areas of knowledge and specialisation.