BefinLab

THE RESEARCH LABORATORY FOR BEHAVIORAL FINANCE

BEFINLAB INDEX CONFIRMING THE NEGATIVE SEASONALITY IN THE PERIOD FEBRUARY – APRIL COMPARED TO S&P BY 4%. SEASONALITY WOULD SUGGEST TO ENTER IN MAY AND THERE GO AWAY.

BefinLab (Research Laboratory for Behavioral Finance) launched its BefinLab Index, to track the performance of the most important 28 Behavioral Funds active in the market versus their relative benchmark, the S&P index.

We considered 19 funds, which managed a total $12bn, that claim to apply behavioral finance in their portfolio strategy. Behavioral funds are defined in the report when the funds explicitly define themselves as behavioral in the name of the funds or in the description of the fund to the clients. In particular these funds are part of the Fuller & Thaler funds family, the JPMorgan AM funds, the Bank Degroff funds, LVS funds, Osiris funds, LGT funds.

In the last press release (published on January 2012) we analyzed the good performance of the BefinLab Index in January anticipating a statistically seasonally weakness during the period February - April. Since February to April the index reported a negative performance of 1.4% compared to benchmark performance of 5.4%. It underperformed S&P Index by 4%. These results confirm not only the so called January effect and the capacity of Behavioral Funds to positively exploit this effect but also they confirm the trend of these funds to perform better in period of positive markets while suffering in period of stress (for a discussion of this point see "Applying Behavioral Funds to Investment" by Alessandro Santoni, Lap-Publishing, 2012). Furthermore our analysis on seasonality shows the best performance of these funds focus on January, May and December, so April could be a good time to look back at these funds to exploit the potential positive performance on May.

BEHAVIORAL FUNDS

Portfolio Managers that apply behavioral finance in their investment strategy implicitly accept that excess profits are possible if the inefficiency is recognized and analyzed properly because investors behave irrationally at times and the behavior is reflected in the market price. Analyst and Investors are believed to be slow to recognize new information related to earnings surprises behaving overconfidently to their prior view with a tendency to underweight evidence that disconfirms their prior views and to overweight confirming evidence. The two main biases at the base of portfolio managers theory was overconfidence and anchoring. The most common tool used to take advantage of this inefficiencies are the exploitation of the so called winner lose effect, the trend momentum effect, the post earning effect and the insider dealing as information signal.

The Research Laboratory for Behavioral Finance **BefinLab** was established in 2010, as the result of the joint effort of some professional traders and research scholars to promote common initiatives in the field of behavioral finance, which requires the interaction and the collaboration among experts of different areas of knowledge and specialization.