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Santa Claus Rally and firm size

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Purpose

– Several articles in the popular press have detailed an end-of-year anomaly known as the Santa Claus Rally, a period best defined as the last five trading days of December and the first two trading days of January. The purpose of this paper is to examine US stock market returns over this period from 1926 to 2014.

Design/methodology/approach

– The authors examine the Santa Claus Rally by relating it to firm size in the stock markets of the USA. The Santa Claus Rally consists of the last five trading days in December and the first two in January. The authors use *t*-tests, non-parametric test and regression analysis to determine if investors in small firms get superior returns over the period 1926-2014.

Findings

– The authors find that returns are generally higher during the period and that the effect is considerably stronger for small-firm portfolios relative to large capitalization portfolios. The authors also provide convincing evidence that the three most important trading days (especially for small stock portfolios) are the last trading day in December and the first two trading days in January.

Research limitations/implications

– The authors only check the markets in the USA. Market makers can use this to get significantly high returns during the Christmas-New Year period. The study shows for the first time that there is a size effect as part of the Santa Claus Rally.

Practical implications

– This is the first study to show that Santa Claus Rally exists for a long time in the USA. It is the first study to show that there is a size effect in Santa Claus Rally. Market participants could get significantly higher returns by investing or being invested in the stock market during this

– The impact of the holiday season on stock market returns.

Originality/value

– This is the first major academic study to examine Santa Claus Rally in this much detail. The authors not only show that the rally exists, the authors show that it is based on firm size and has been in existence for nearly 90 years in the USA.

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