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Pages 93-95 | Published online: 31 Dec 2018

“ Cite this article   <https://doi.org/10.2469/faj.v47.n6.93>

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# Technical Note

## Monthly Regularities in the OTC National Market System

by Richard D. Fortin, New Mexico State University, and  
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Interesting things happen in U.S. stock markets at identifiable points within a typical month. Rates of return, for example, are usually abnormally large from the last trading day of the month through the first few days of the next month.<sup>1</sup> Most of the evidence available on this monthly effect is for exchange-listed stocks, however.<sup>2</sup> Less is known about the monthly behavior of dealer spreads (the main component of transaction costs) and trading volume of over-the-counter (OTC) stocks.<sup>3</sup>

We present evidence here of monthly regularities in the rates of return, percentage dealer spreads and trading volume of OTC stocks on the National Market System (NMS). We pay special attention to differences in company size; as the well known small-stock effect indicates, these can be important. Regularities that are common to all stocks, regardless of size, are particularly interesting, however. Our results indicate that the monthly regularities in rates of return, percentage spreads and volume apply generally to NMS stocks of all sizes.

Such regularities are of interest for several reasons. Investors already committed to selling or buying a stock may find it advantageous to time their transactions to account for rate-of-return regularities. Some investors may even try to devise active trading schemes that exploit the same regularities. Any calendar regularities in spreads have important implications for investors, given the effect of spreads on transaction costs. Finally, because volume has obvious links to returns and spreads, volume patterns may be related to rate of return and spread patterns. Volume regularities may also be valuable to investors who prefer to trade in periods when liquidity is relatively high.

We obtained data on NMS stocks from Version 4 of the NASDAQ CRSP (Center for Research in Security Prices) tape. (NMS stocks are generally the larger, more widely traded OTC stocks.) The time period is from November 1, 1982, when trading volume is first reported on the tape, to December 29, 1989.<sup>4</sup> We placed stocks into market-value quintiles based on beginning-of-year stock prices, resorting each year. Because results were consistent across firm sizes, we

present data on only the smallest, medium and largest size quintiles.

### Rate-of-Return Regularities

In examining monthly rate-of-return effects, we included the last trading day of the month as part of the "first half" of the next month.<sup>5</sup> The upper parts of Tables I through III show that, with such an arrangement, average rates of return for the first half of the month are significantly larger than those for the second half.<sup>6</sup> This finding holds for all firm sizes. These results are fully consistent with Ariel's findings for exchange-listed stocks.<sup>7</sup>

Daily returns are shown in more detail in the lower parts of the tables. All size quintiles reflect similar results. Rates of return are abnormally and significantly large around the turn of the month. Returns are especially large on the last trading day of the calendar month (Day -1). The total five-day trading period beginning on the last trading day of the calendar month clearly dominates all other parts of the month. In contrast, rates of return tend to be lowest—often negative—in the mid-month period.

**Table I** Rates of Return, Volumes and Dealer Spreads for Smallest Quintile of OTC NMS Stocks (average equity market value = \$18.0 million)

Part of Month	Daily Return	Daily Volume (thousands)	Spread
First Half (Days -1 to +8)	0.243%	7.8	9.18%
Second Half (Days -10 to -2)	0.071	8.0	9.30
All of Month	0.162	7.9	9.24

Day of Month	Return	Volume (thousands)	Spread
-10	-0.038%	7.8	9.25%
-9	-0.106	8.3	9.28
-8	0.219	8.5	9.26
-7	-0.005	8.6	9.30
-6	0.203	8.5	9.30
-5	0.043	7.4	9.36
-4	0.031	7.1	9.35
-3	0.093	7.8	9.32
-2	0.199	8.0	9.28
Last day -1	0.581	8.5	9.27
First day 0	0.250	7.1	9.19
+1	0.359	7.7	9.18
+2	0.276	7.8	9.15
+3	0.257	7.9	9.14
+4	0.136	8.1	9.17
+5	0.155	7.7	9.17
+6	0.156	7.6	9.18
+7	0.218	7.9	9.18
+8	0.042	8.1	9.19

1. Footnotes appear at end of article.

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