

Background

"Calendar Effects" is the name given by academics and researchers to the long-established and statistically-validated tendencies of the stock market to produce much higher than average returns during certain calendar periods.

Examples of such calendar periods are: the handful of days surrounding the turn of most months, the few days before most market holidays, the week between Christmas and New Years, and the period roughly between Halloween and Easter.

Numerous Academic Studies Confirm Calendar Effects

It is prudent to be cautious about any investing strategy, let alone one that is as far out of the mainstream as Calendar Effects.

Fortunately, there have been numerous studies over the years by skeptical academics who have concluded - usually to their surprise - that Calendar Effects are real, statistically significant, and have persisted over many decades (even centuries).

Here are some quotes:

*"In this paper, we construct a powerful test to evaluate the significance of calendar effects. We apply the test to stock returns from ten countries and **find overwhelming evidence that calendar effects are statistically significant**, even if one controls for the possibility of data mining."*

- from "Testing the Significance of Calendar Effects", Professors Hansen and Lunde, Brown University Dept. of Economics, January 2003 (emphasis added)

*"Thus, over the period [1926-2005], the turn-of-the-month effect is pronounced and, as we will show, **highly statistically significant**...The turn-of-the-month effect occurs in 30 of them [of 34 non-US countries studied]. The effect is apparently not due to a factor unique to the US market structure."*

- from "Equity Returns at the Turn of the Month", Professors Xu and McConnell, Purdue University, July 2006 (emphasis added)

Other academics have looked at historical data and determined Calendar Effects to have been noticeable in European markets since 1694!

Even Professor Jeremy Siegel, the pre-eminent academic proponent of efficient markets and buy-and-hold investing, acknowledges that Calendar Effects (he calls them Calendar Anomalies) are very real. In fact, he devotes a chapter to them in his famous "Stocks for the Long Run". He grudgingly concludes *"Why these anomalies occur is not well understood, and whether they will continue to be significant in the future is an open question. But **their discovery has put economists on the spot. No longer can researchers be so certain that the stock market is thoroughly unpredictable and impossible to beat.**"*

- from "Stocks for the Long Run", 4th Edition, Prof. Jeremy Siegel, Chapter 18, p. 306 (emphasis added)

My Involvement with Calendar Effects

I first learned about Calendar Effects back in the '70's, hidden in a chapter of a fabulous book titled "Stock Market Logic", by Norman Fosback (long out of print, but if you can find one, I heartily recommend it).

Over the subsequent years, I have continued to research Calendar Effects and to enhance the implementation strategies that can take advantage of Calendar Effects. For example, I have incorporated several other factors that adapt Calendar Effects specifically to the US market's idiosyncrasies, ranging from corporate and personal taxation dates to the timing of Jewish religious holidays.

Since 2001, I have directly managed as much as \$600 million in managed accounts using this strategy. As of this writing, these accounts have been nicely profitable and have soundly beaten the S&P 500 over every trailing time frame, all while being exposed to the market a mere 28% of the time.

Using the Sherman Calendar Effects Strategy

The Calendar Effects strategy is an extremely conservative method of gaining equity exposure, as it only enters the market for a relative handful of days at a time, then exits back to the safety of cash until the next Calendar Effects period arrives. In a typical year, there are twelve to fourteen trades, totaling just 72 to 77 market days (out of 252 market days in an average year).

In Bull Market years, when the market is steadily advancing, the Calendar Effects strategy typically produces positive returns but can fall somewhat behind the market averages, particularly in strongly positive years.

Using the Sherman Calendar Effects Strategy, cont.

In Bear Market years, Calendar Effects tends to produce positive returns and usually greatly outperforms the market averages. For example, my Calendar Effects managed accounts were up more than 27% in 2008 while the S&P 500 was down over 38% (an astounding outperformance of 6,500 basis points!), and they have continued to significantly outperform the S&P 500 through the second quarter of 2009 (see the Historical Performance table below).

Because of the dichotomy of bull-market underperformance and eye-popping bear-market outperformance, I usually recommend that advisors apply my Calendar Effects strategy during Bear Markets, and apply my other Sherman Sheet strategies during Bull Markets. Fortunately, the Sherman Sheet conveniently points out when we are in a Bull Market or Bear Market, so making the switch is very easy.

The Two Pieces of Information You Need to Know

The Sherman Sheet will publish the only two pieces of information that are required to implement the Sherman Calendar Effects Strategy: the entry and exit dates of the next Calendar Effects period, and the recommendation of styleboxes that should be used for investment selection during the next Calendar Effects period. The dates are published well in advance, whereas the stylebox recommendations are published just a day or two in advance of the entry date, since they are based on current information and subject to change right up to the day before the entry date.

The Upside of the Sherman Calendar Effects Strategy

The upside is simple: proven outperformance, particularly in difficult markets, with minimal exposure to market risk.

The Downside of the Sherman Calendar Effects Strategy

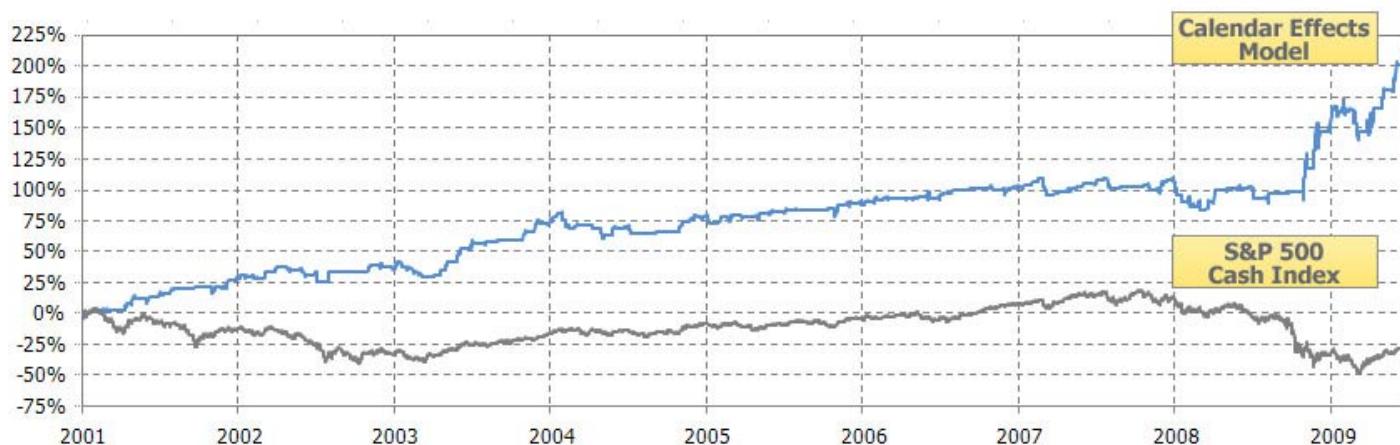
The biggest downside is that clients can become impatient should the Calendar Effects Strategy underperform in Bull Market years unless they are very conservative and well-prepared by their advisors. My recommendation for overcoming this fact of life is to apply the Sherman Calendar Effects Strategy during Bear Markets, and apply other Sherman Sheet strategies during Bull Markets.

Another downside is that the Sherman Calendar Effects Strategy can only be implemented in accounts that allow for twelve to fourteen round-trips per year, with holding times that can be as short as two or three days. Many 401k plans and mutual fund families simply don't allow this kind of activity. The ProFunds and Rydex fund families are perfect, as are regular brokerage accounts with ETF access (especially in wrap accounts where transaction fees are not an issue). You should check to be sure that any accounts you are considering for the Sherman Calendar Effects Strategy are not prevented from engaging in this level of activity!

Historical Performance

	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Sherman Calendar Effects	27.6%	5.2%	27.7%	3.3%	4.4%	8.1%	1.3%	27.3%	20.4%/yr
S&P 500 Cash Index	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.5%	3.5%	-38.5%	1.7%/yr

* Through 6/30/2009. Real-Time since 4/1/2001. See theshermansheet.com for current 2009 results.



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The Shermanator and the Sherman Strategy were both introduced in early 2004. The construction of the Shermanator has not changed since introduction. However, the Sherman Strategy has been improved numerous times over the years, as recently as mid-year 2008. These changes include improvements in the interpretation of the Shermanator, as well as improvements in portfolio construction. Therefore, even though the Shermanator itself has been calculated in real time since its introduction, please consider all of the returns shown in the Shermanator strategy tables and charts to be hypothetical, as they are the result of applying the current Sherman Strategy to all prior years. The Sherman Calendar Effects Strategy has been implemented in real-time since April 1, 2001, and has not changed since that time.

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