

EXECUTIVE SUMMARY

The patterns of Japanese stock and fixed-income securities returns are examined to determine whether these returns are characterized by seasonality such as the “day-of-the-week effect”, “week-of-the-month effect” and “month-of-the-year effect”.

Since factors that lead to seasonality in equity market may affect fixed-income securities in the same way, we examine both the Japanese stock index and fixed-income securities indices from the period of March 1987 to December 2005.

The pattern of returns in fixed-income securities with different maturities may also be different; a range of debt instruments is used, specifically: 1) short-term government bill (6-month), 2) medium-term government note (3 to 5 years) and 3) long-term government bond (over 10 year). The study period is 2nd March 1987 to 30th December 2005. Due to the potential effects of the Asian Financial Crisis, securities returns patterns may be different during the 1987 to 1997 period than it was after 1997, we thus further divide the period into two subperiods: 1987 to 1997 and 1998 to 2005. In order to thoroughly examine the seasonal patterns in these two securities markets, we perform tests on three of the most common phenomena, which are the “day-of-the-week effect”, “week-of-the-month effect” and “month-of-the-year effect”.

Our results indicate the Japanese equity market exhibits day-of-the-week effect during

1987-1997 and it disappears in the later study period 1998-2005. The short-term government bill index has significant higher Monday returns. The higher returns may be due to its unique characteristic and pricing method. It also exhibits month-of-the-year effect over the period 1987-2005. Although both medium-term note and long-term bond exhibit day-of-the-week effect, their seasonality occurs on Thursdays and Fridays, this is different from what other studies have previously found in the equity market. The monthly returns of the medium-term bond are not all equal across twelve months, the highest returns occurred in June. Overall, the result does not show a clear relationship between the equity and the fixed-income securities markets, in spite of the fact that fixed-income securities do not display common seasonal pattern within themselves.