

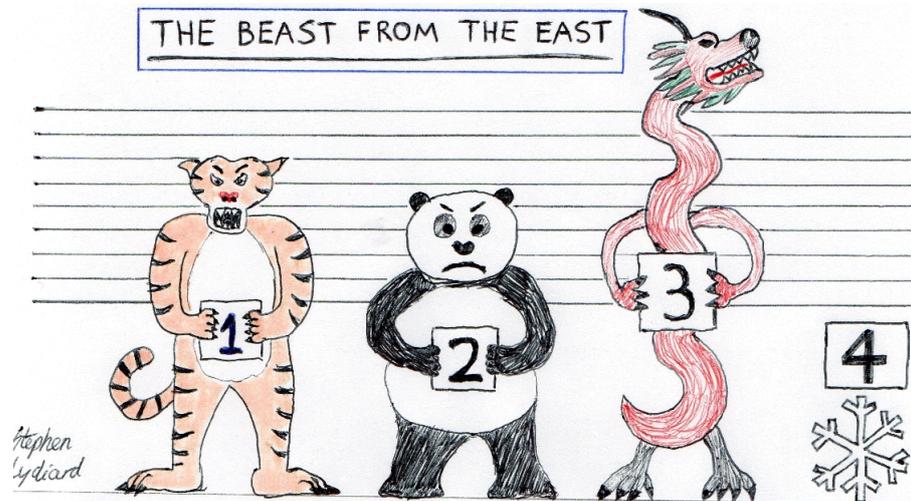


MVAM
MOLE VALLEY
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MVAM Newsletter

'Whether the Weather be Fine, Whether the Weather be Not...'

March 2018



You probably noticed that February was on the cold side this year. As 'the Beast from the East' bids a fond farewell to the UK, we are taking a look at how the snow might affect business.

British people are known for talking about the weather, but nobody moans about the weather more than a weak company. Adverse weather conditions do certainly hamper business: work was interrupted at Jaguar Land Rover and Cadbury's plants when the recent snow caused burst water pipes, sales were down by 14.4% in John Lewis branches, and the cost of lost time to the construction industry has been estimated at £2 billion. But a strong company will be able to cope with such setbacks, or take them on the chin. A weak company makes excuses. Blaming poor performance on the weather is 'the dog ate my homework' of the business world. So when a company starts to talk about the weather, the warning lights start flashing.

As the weather effects business operations, so too does it affect the stock market. If a business is hit by bad weather, its share price is liable to fall, but the predominant theory behind the 'weather effect' actually comes from behavioural economics. The weather affects the mood of investors, which affects their trading behaviour, or so the theory goes. Studies have repeatedly found that people tend to be more cautious and analytical when in a bad mood, and act more impulsively and bullishly in a good mood. So sunny days lead to happy investors, and more optimistic evaluations.

When our boiler cut out for a morning during the coldest day in February, MVAM staff could certainly attest that the weather can affect one's mood. But there is also convincing evidence that weather really does affect investor behaviour. A study published in 2003 analysing all major stock exchanges between 1982-1997 concluded that 'sunshine is highly significantly correlated with stock returns', though found that snow seemed to have no effect. A 2011 study looking at New York's weather and the Dow Jones over 62 years agreed about the sunshine effect, but with an interesting addition. The effect of the weather on the stock exchange was most pronounced when higher proportions of individual investors (the paper uses the term 'average Joes') were trading. More recent studies have detailed more weather effects, with some finding that even increased humidity can affect the FTSE100.

But don't call your meteorologist friends just yet. Unfortunately, this last paper concludes with the disappointing line, 'However, it is unlikely one could make money on the stock market from accurate weather forecasts'.

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