

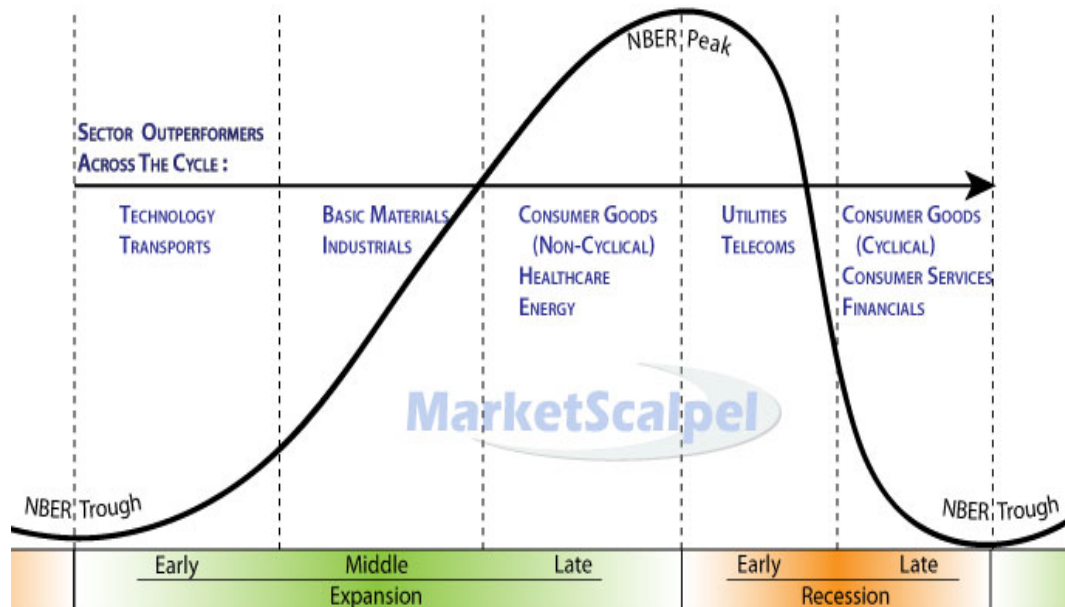
The facts behind Sector Rotation

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Abstract

The conventional view of sector rotation represents the belief that investing in certain sectors at different stages of the business cycle can deliver superior returns relative to a purely passive strategy. The preferred sectors through the various stages of the business cycle are illustrated by the following diagram.



In this talk we take a close look at the econometric facts behind this conventional view. While we do not test whether actual sector rotation works, we test the fundamental assumptions underlying sector rotation. Do sector returns differ significantly across the business cycle?