



The Great Debate

Buy and Hold or Market Timing

A presentation by MEET ITALY and Pepperdine University

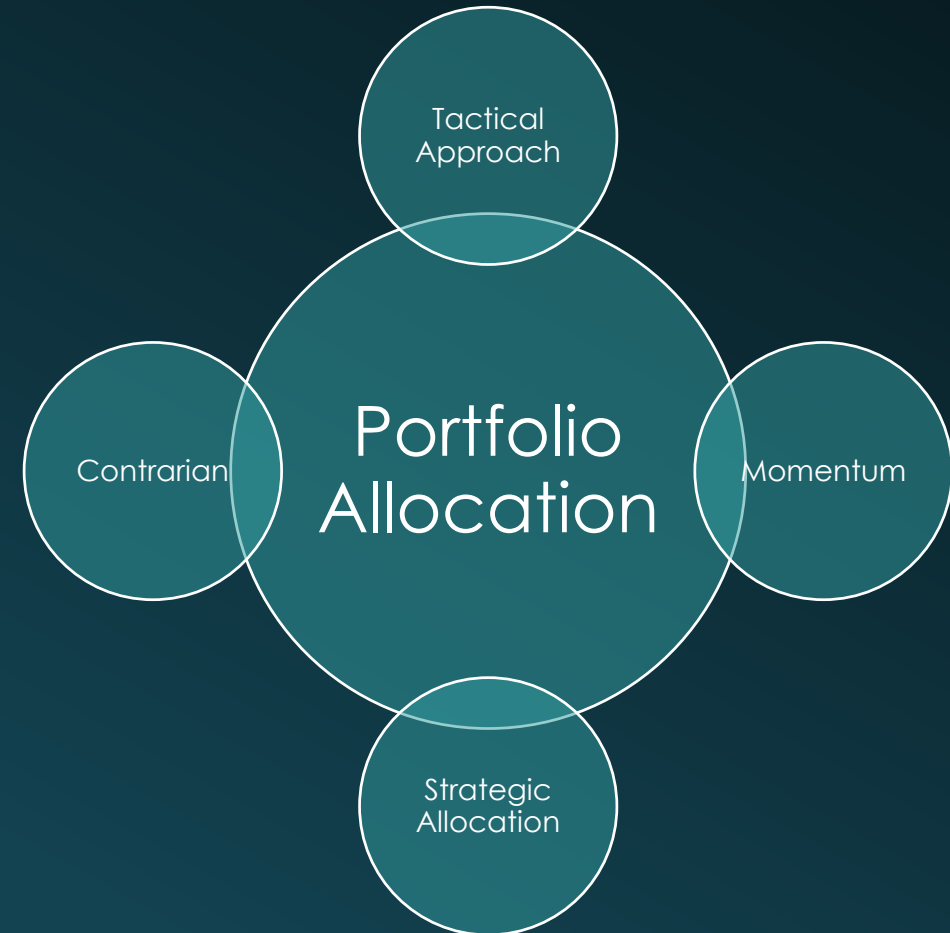
October 13, 2018

Panelists

- Davide Accomazzo
 - CIO Thalassa Capital
 - Prof. Pepperdine University
 - Founder MEET ITALY
- Clemens Kownatzki
 - Prof. And Academic Director Pepperdine University
- Terry Ing
 - Prof. Pepperdine University
 - Head of Credit, Muddy Waters Capital
- Chris Manfre
 - Prof. Pepperdine University
 - Managing Director, Bardi Co.

Expected Returns Variation

- Evidence expected returns are not constant but time varying
 - Suggests markets are inefficient?
 - Should Market timing improve performance?
- Empirical evidence proves tactical approaches have underperformed. WHY?





Rational versus Irrational

- Risk premia versus behavioral expectations
- Micro-efficiency versus macro-inefficiency
- Keynes: “Markets can stay irrational longer than you can stay solvent.”

Empirical Evidence on Active Investing

UNITED STATES

PERCENTAGE OF LARGE-CAP FUNDS THAT UNDERPERFORMED THE S&P 500®

Data as of Dec 29, 2017

FIVE-YEAR

84.23%

THREE-YEAR

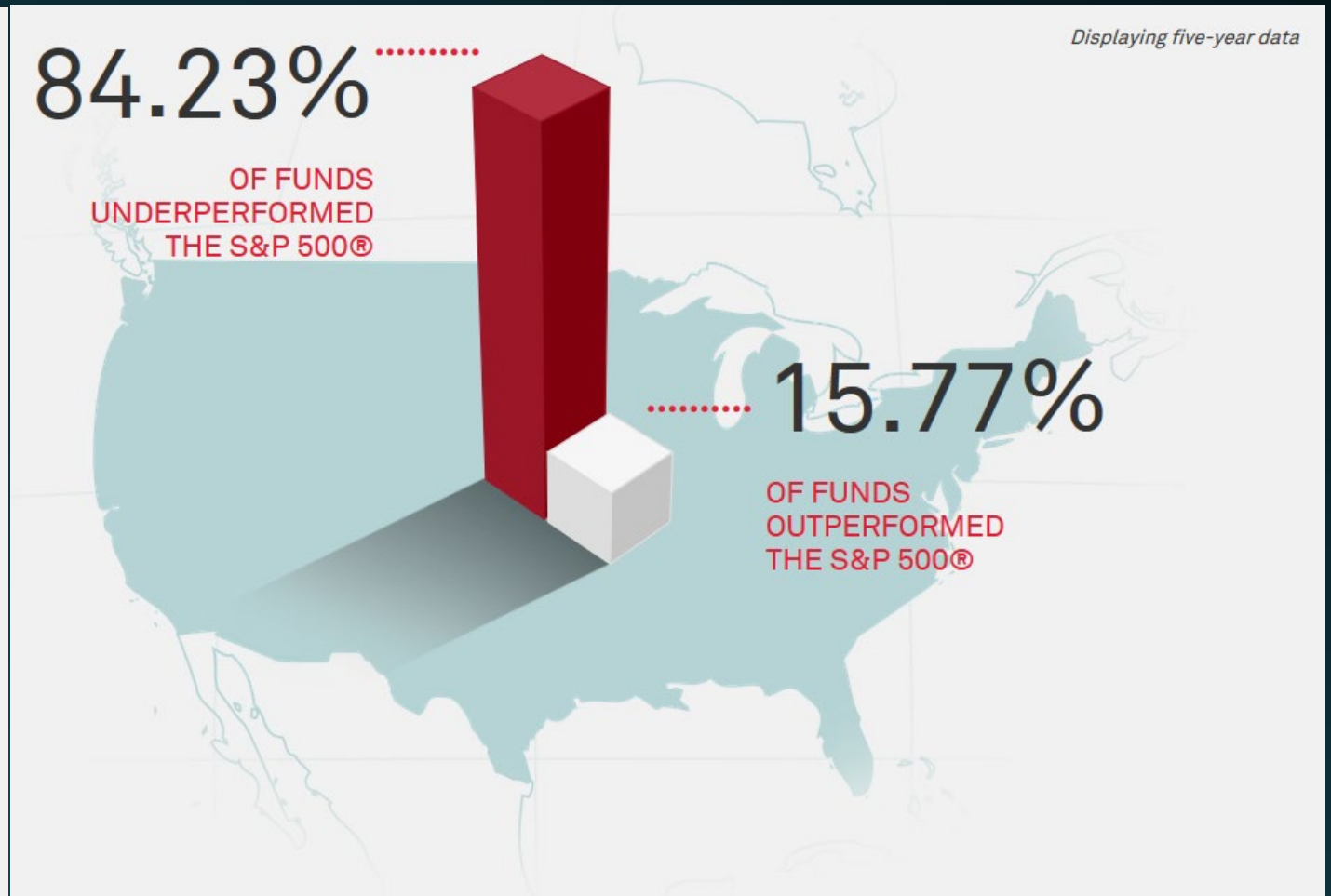
80.56%

ONE-YEAR

63.08%

84.23%

OF FUNDS UNDERPERFORMED THE S&P 500®



United States

Percentage of funds that underperformed their benchmark

As of:

Dec 29, 2017

S&P Dow Jones
Indices

A Division of S&P Global

Asset Class	Fund Category	Comparison Index	5 YR (%)	3 YR (%)	1 YR (%)
U.S. Equity	Large-Cap	S&P 500®	84.23	80.56	63.08
U.S. Equity	Mid-Cap	S&P MidCap 400®	85.06	86.34	44.41
U.S. Equity	Small-Cap	S&P SmallCap 600®	91.17	88.83	47.70
U.S. Equity	Multi-Cap	S&P Composite 1500®	84.91	83.64	56.46
U.S. Equity	Domestic Equity	S&P Composite 1500®	86.72	83.40	63.43
U.S. Equity	Large-Cap Growth	S&P 500 Growth	80.92	67.58	32.92
U.S. Equity	Large-Cap Core	S&P 500®	90.99	88.45	68.98
U.S. Equity	Large-Cap Value	S&P 500 Value	85.07	80.37	46.88
U.S. Equity	Mid-Cap Growth	S&P MidCap 400 Growth	81.13	91.46	18.05
U.S. Equity	Mid-Cap Core	S&P MidCap 400®	87.90	88.24	61.67
U.S. Equity	Mid-Cap Value	S&P MidCap 400 Value	81.54	75.41	43.14
U.S. Equity	Small-Cap Growth	S&P SmallCap 600 Growth	86.67	86.53	15.08
U.S. Equity	Small-Cap Core	S&P SmallCap 600®	95.59	93.78	58.59
U.S. Equity	Small-Cap Value	S&P SmallCap 600 Value	95.45	82.14	74.07
U.S. Equity	Multi-Cap Growth	S&P Composite 1500 Growth	85.11	83.24	46.32
U.S. Equity	Multi-Cap Core	S&P Composite 1500®	90.13	92.78	68.78
U.S. Equity	Multi-Cap Value	S&P Composite 1500 Value	76.24	76.47	49.57
U.S. Equity	Real Estate	S&P United States REIT	73.68	59.76	36.90
U.S. Fixed Income	Government Long	Barclays Long Government	98.31	100.00	96.43
U.S. Fixed Income	Government Intermed	Barclays Intermediate Government	80.00	90.91	57.89
U.S. Fixed Income	Government Short	Barclays 1-3 Year Government	79.31	69.23	47.83
U.S. Fixed Income	Investment-Grade Lo	Barclays Long Government/Credit	95.45	94.68	96.74
U.S. Fixed Income	Investment-Grade Int	Barclays Intermediate Government/Credit	40.94	35.53	31.37
U.S. Fixed Income	Investment-Grade Sh	Barclays 1-3 Year Government/Credit	43.33	41.67	22.22
U.S. Fixed Income	High-Yield	Barclays High Yield	93.81	90.87	80.95
U.S. Fixed Income	Mortgage-Backed	Barclays Mortgage-Backed Securities	79.31	73.08	67.92
U.S. Fixed Income	Global Income	Barclays Global Aggregate	52.59	60.55	64.86
U.S. Fixed Income	Emerging Markets De	Barclays Emerging Markets	85.71	70.69	22.58
U.S. Fixed Income	Loan Participation	S&P/LSTA U.S. Leveraged Loan 100 Index	52.78	56.25	52.08
U.S. Fixed Income	General Municipal D	S&P National AMT-Free Municipal Bond	47.50	58.75	42.86
U.S. Fixed Income	California Municipal	S&P California AMT-Free Municipal Bond	33.33	25.00	69.44
U.S. Fixed Income	California Municipal	S&P California AMT-Free Municipal Bond	37.14	30.56	25.71
U.S. Fixed Income	New York Municipal	S&P New York AMT-Free Municipal Bond	73.33	57.14	33.33

Peak Passive?

- According to data from Bank of America, between the end of 2017 and June 30, 2018, passive trackers' share of the market hit a record 44.2% for US equities
- At this rate, some analysts project passive funds will have a majority of the markets in 3 to 4 years
- Are inefficiencies creeping up into the markets as a result of this seismic shift?

Value vs. Momentum

- Momentum seems to excel in the 1 to 12 month time frame
- Value seems to work in long time frame but..... How long?
- Are contrarian signals always too early?
- Is strategic diversification at the heart of a successful timing approach?

Valuation Ratios and Future Predictions

- Low yields as predictors of future performance
 - Dividend yields
 - CAPE

Hindsight issue and how do we know in which quintile of valuation we may be when looking forward?

What's really the information from market yields?

Do low dividend yields reflect low required risk premia, irrationality or high future cash flow growth?

Costs of Timing

- David Blanchett quantify the cost of tactical rebalance as an additional cost of 77 basis points to add to the annual tax burden
- Blanchett also quotes the need for tax-exempt investors to reach at least 65% accuracy in their tactical rebalancing just to match the Sharpe and Sortino ratios of portfolios with a static 54% equity exposure
- What's the optimal rebalance?

Sources

- Davide Accomazzo, *“Market Faith,”* 2017, CreateSpace, Los Angeles
- Antti Illmanen, *“A Historical Perspective on Time Varying Expected Returns,”* 2016, CFA Institute Research Foundation
- David Blanchett, *“Is Buy and Hold Dead? Exploring the Costs of Tactical Reallocation,”* February 2011, *Journal of Financial Planning*, Vol. 24, No. 2

Contact Details

Prof. Davide Accomazzo

310-867-2255

da@thalassacapital.com

www.thalassacapital.com

www.meetitaly.net