Research Review: Old chestnuts

Ron Bird | University of Technology Sydney | 18 October 2017 | 1.00 CE

The first "old chestnut" under consideration is portfolio insurance, invented by Hayne Leland and Mark Rubinstein over 40 years ago but whose reputation was sorely tarnished by the October 1987 global stock market crash. In recent years, portfolio insurance has experienced the renaissance that it very much deserves. The outcomes that investors prize highly are the avoidance of negative returns, and high returns that are right skewed. Portfolio insurance applied to the more risky investment classes (e.g. equities) delivers all of these qualities and so represents an extremely appropriate investment option for most (retail) investors. A world of warning - investors should be careful to choose products that are fairly priced and where the insurance is implemented in an efficient way.

The second old chestnut is trend (momentum) investing, the first conscious use of which by professional investors dates back over 40 years. It has been designated by Eugene Fama as being the longest standing market anomaly, the success of which is traced back in this paper to well in excess of a 100 years.

Theory and Practice of Portfolio Insurance

- Martin Kolrep, Harald Lohre and David Happersberger | *Risk & Reward* / 2017, Issue 2

The article proposes that an investment strategy can be enhanced by limiting its downward performance by the addition of a portfolio insurance component. The authors analyse various portfolio insurance strategies - from the static stop-loss concept to option-based strategies and dynamic portfolio insurance strategies.

The findings suggest that an active approach on the basis of dynamic risk forecasts is an effective means for implementing a protected investment strategy.

A Century of Evidence on Trend-Following Investing

Brian Hurst, Yao Hua Ooi, and Lasse Heje Pedersen | June 2017

The authors study the performance of trend-following investing across global markets since 1880, extending the existing evidence by more than 100 years using a novel data set. They find that in each decade since 1880, time series momentum has delivered positive average returns with low correlations to traditional asset classes. Further, time-series momentum has performed well in eight out of 10 of the largest crisis periods over the century, defined as the largest drawdowns for a 60/40 stock/bond portfolio. Lastly, time series momentum has performed well across different macro environments, including recessions and booms, war and peacetime, high- and low-interest rate regimes, and high- and low-inflation periods.

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