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1999 Market Triathlon Results

by Frank M. Grossman

Could the stereotypical image of “the actuary,” deliberate in his approach, conservative in his outlook, have ever been in doubt? (Better to put aside any quips about the trusty scientific calculator at his side, stained plastic pocket protector, and bad haircut for the time being.) I think not. And the results of the 1999 Market Triathlon appear to back me up.

Our triathletes boldly ventured to predict the 3-month Treasury bill rate, 30-year Treasury bond rate, and Dow Jones Industrial Average index value at year-end 1999. Yet their seven-month forecasts, on average, fell short of the actual statistics on December 31, 1999 (Table 1). Short rates at year-end were roughly 40 basis points higher than the average pick, while long rates were more

than 55 points higher. The Dow outstripped the average triathlete pick by more than 900 points.

Some might concede, however, that it was difficult to forecast recent increases in the federal funds rate: up 0.75% during the last half of 1999; followed in 2000 by 0.25% on February 21, another 0.25% on March 21, capped by a 0.50% increase on May 16 (just for those who weren’t paying attention). Fasten your seat belts for the so-called “soft landing.”

And how could you anticipate the run-up in long bond rates to year-end 1999 and their subsequent decline? The first half of 2000 has witnessed the demise of the 30-year Treasury bond as a bellwether for the American bond market as the supply of Treasuries has been shrinking due to the emerging federal budget

surplus. In particular, only \$15 billion of 30-year bonds are expected to be auctioned this year (this figure was \$47 million in 1991 and \$20 billion last year), and its price of late has increasingly reflected “maturity preference” market dynamics. The 10-year Treasury note has now effectively supplanted the 30-year bond as the bond market benchmark.

As well, the impact of momentum trading on equity markets should not be underestimated. For example, it is thought that the travails of hedge funds are largely rooted in disconnect between market valuations and fundamental data. Consider the fate of mighty Tiger Management, with greater than \$25 billion under management in 1998, now soon to liquidate its holdings and go out of business.

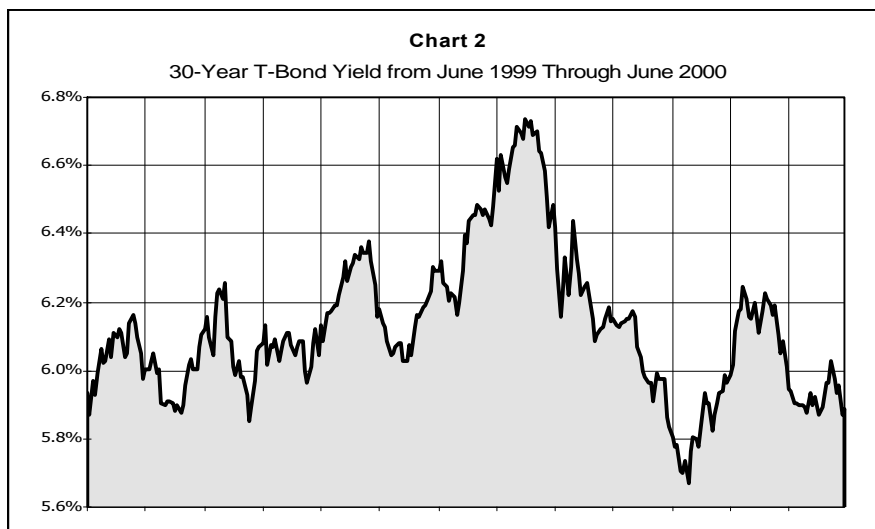
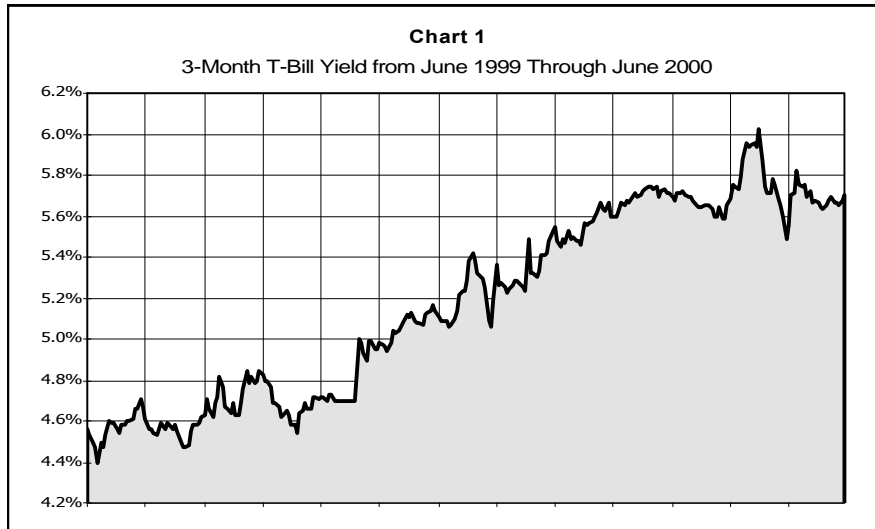
Table 1
Recent Historical Data

	3-Month T-Bill Yield	30-Year T-Bond Yield	DJIA Index Close
June 1, 1999	4.56%	5.936%	10596.26
December 31, 1999	5.19%	6.477%	11497.12
June 30, 2000	5.70%	5.889%	10447.89

Perhaps the real story of note over the past several months, aside from the continuing unpredictability of financial

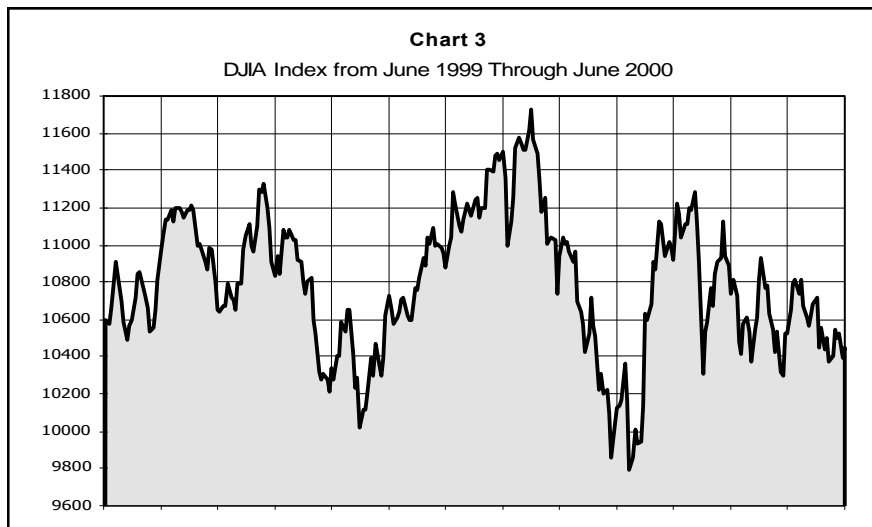
markets, has been the degree of volatility within those markets (Charts 1 through 3). And the fluctuations in the DJIA close

doesn't relate the significant intraday variation that exists. Just the stuff to fog any seer's crystal ball.



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Through this haze of market uncertainty, the pairwise scatter charts of triathlete picks have been updated to include the actual year-end 1999 statistics, denoted by the dark circle in each chart (Charts 4 through 6). To the credit of the triathletes, the actual results fall within the locus of their picks — though just barely so in the case of the short rate / DJIA index plot (Chart 5).

The winners of the 1999 Market Triathlon individual events are: Ken Westover (3-month T-bill), Steve Huber on tie-break over Donna Claire (30-year T-bond), and Jim Borema (DJIA index) (Table 2). It is often said “better to be approximately right than exactly wrong,” and the Market Triathlon is no different, as the key to overall success is to place well within each of the three categories.

Hearty congratulations to Laura Beckman for her first-place finish in the 1999 Market Triathlon (Table 3). The location of the winning overall pick is denoted on the scatter plots by the dark triangle/square/diamond symbols. First-place prizes of \$100 will be soon on their way to Laura and the three individual event winners.

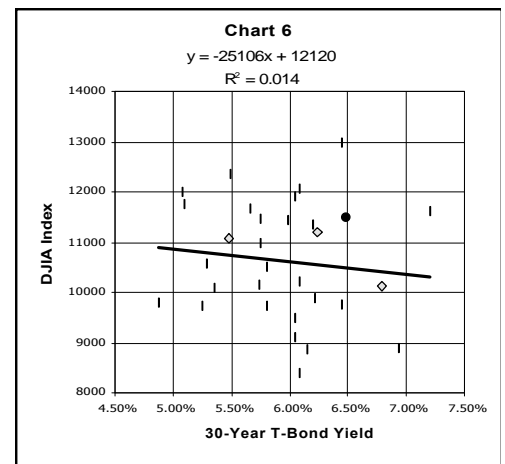
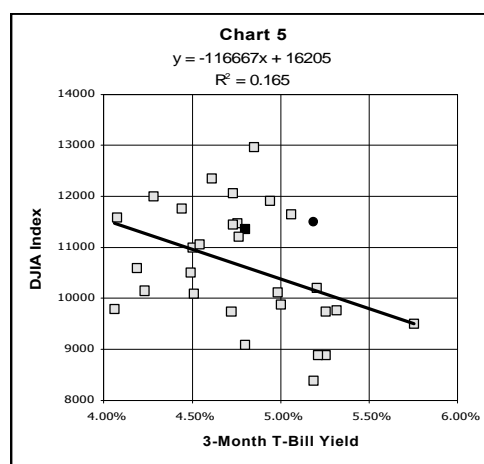
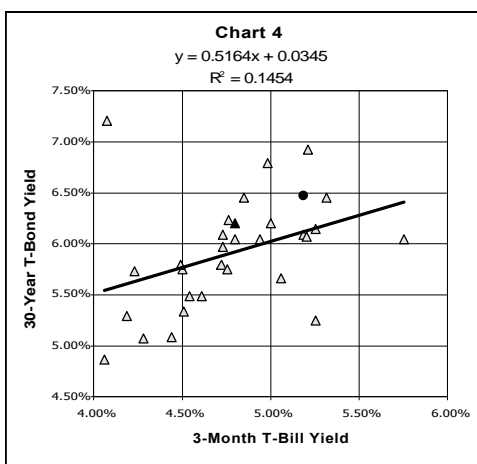


Table 2
1999 Market Triathlon Results by Event

Event	Rank	Name	Pick at December 31, 1999	Absolute Deviation of Pick from Actual
3-Month T-Bill (5.190%)	1	Ken Westover	5.190%	0.000%
	2	Michael Wiesner	5.200%	0.010%
	3	David Moser	5.211%	0.021%
30-Year T-Bond (6.477%)	1*	Steve Huber	6.450%	0.027%
	1	Donna Claire	6.450%	0.027%
	3	Donald Krouse	6.240%	0.237%
DJIA Index (11497.12)	1	Jim Borema	11476.00	21.12
	2	Harold Ingraham	11431.00	65.36
	3	Raymond D. Berry	11600.23	103.11

* Steve Huber placed first in the long bond event on tie-break.
The lowest DJIA index close during the fourth quarter of 1999 was 10019.71 on October 15.
Steve Huber's pick was 9607.00; Donna Claire's pick was 9035.00.

Table 3
1999 Market Triathlon Overall Results

Overall Rank	Name	Cumulative Event Rank	Rank in Individual Events		
			90d	30yr	DJIA
1	Laura Beckman	21	12	5	4
2	Donald Krouse	24	14	3	7
3	Michael Wiesner	28	2	10	16
4	Lori Vande Krol	29	10	11	8
5	Steve Huber	30	6	1	23

Is it possible that our triathletes weren't lacking in imagination with their staid seven-month forecasts, and that they were simply caught unawares — along with everyone else — by Alan Greenspan and those pesky “animal spirits” on Wall Street? Something to think about. Now where did I put my calculator?

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