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THE 2014 INVESTMENT SECTION ASSET ALLOCATION CONTEST

By Joe Koltisko

One thing that makes investments the best actuarial practice area is that the market tells us who was right. We argue impressions and opinions as in all actuarial work, but the facts rudely step in to settle those arguments every day.

In the 2014 Investment Section Asset Allocation Contest, we asked section members to lay it on the line by selecting a hypothetical long-position-only portfolio from among 10 exchange-traded fund (ETF) assets for a six-month holding period ending in September 2014. We will award one prize each for the best outcome in three different investment objectives: maximum return, minimum volatility, and the maximum ratio of return to volatility. You can follow your favorite celebrity investment actuary as results are updated each month at the Investment Section's webpage:

http://www.soa.org/Professional-Interests/Investment/2014-investment-contest.aspx.

Each ETF in the universe is broadly representative of an asset class, such as bonds, emerging market stocks, TIPs, cash and more. The leaders to date all had high real estate allocations. My rationalization for coming in #56 as of April is that I am shooting for the ratio of return to volatility category. We'll see how that one goes! I did have a little model but it may not be worth crowing about.

Often crowds are smarter than individuals. Here[1] is the initial allocation of the universe of all 134 participants in the contest. I wonder if this allocation will outperform.

We struggle with how to make sure contestants have some skin in the game. Please send the section council your suggestions on that. As a positive incentive, you can talk about your winning approach here on the pages of *Risks & Rewards*. Should we ask the contestants who come in below the median in their designated category to pledge a small contribution to the Investment Section? Just a thought.

Our correspondent asked one of last year's winners, Melissa Knopp, to comment on her trade secrets. Melissa writes:

"Last year I won the award for the highest ratio of return to volatility in the Asset Allocation Contest. I didn't have a particular prize category in mind when making my selections; I picked a portfolio that I might have picked in real life. My goal, of course, was to maximum returns, without taking on excessive risk. That being said, in early 2013 I did feel optimistic about the market in the short term, so I picked mostly stocks. I added a few more assets so I could feel good about being diversified.

"My 2013 portfolio consisted of: 60 percent Total Stock Market (VTI), 20 percent International (ACWI), 10 percent Bonds (BND), 5 percent Real Estate (RWO) and 5 percent Commodities (DBC). As it turns out I would have been better off picking 100 percent VTI, like Marguerite Boslaugh.

"I chalk my win mostly up to luck. So good luck to you all in the 2014 contest!"

That's right, good luck all! Watch next month for the big finale.

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[1]

GSY	BND	TIP	VTI	GLD	ACWI	DBC	EFA	RWO	EEM
4.9%	13.5%	3.2%	21.9%	14.4%	6.1%	7.6%	8.7%	7.8%	11.9%