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2013 INVESTMENT CONTEST WRAP-UP

By Tom Anichini & Frank Grossman

"The party's over
It's time to call it a day
They've burst your pretty balloon
And taken the moon away
It's time to wind up the masquerade
Just make your mind up the piper must be paid"
– Betty Comden & Adolph Green

Hopefully you didn't read the news that the equity party is over, or soon will be over, here first. The recent signs have been unmistakable. Whenever our central bankers suggest that it might—just maybe, when you think about it—be time to terminate their soft dollar policy, otherwise known as quantitative easing, a market sell-off ensues. What's an actuary to do? One alternative is to step back from the punch bowl a little, fix the door that you came in by in the corner of your eye, and start charting a path from your present location out through same doorway for personal use once the music stops. Having attended to that small matter, why not turn our attention to the results of the 2013 Investment Contest.

During the second and third quarters of 2013 the Investment Section hosted an asset allocation contest, which attracted more than 100 entrants. The contest required each entrant to allocate a notional portfolio among the following 10 Exchange Traded Products[1] (ETPs):

Ticker Name	Full Name
GSY	Guggenheim Enhanced Short Duration Bond ETF
TIP	iShares Barclays TIPS Bond ETF
BND	Vanguard Total Bond Market ETF
RWO	SPDR Dow Jones Global Real Estate ETF
DBC	PowerShares DB Commodity Index Tracking Fund
VTI	Vanguard Total Stock Market ETF
EFA	iShares MSCI EAFE Index ETF
EEM	iShares MSCI Emerging Markets Index ETF
ACWI	iShares MSCI ACWI Index ETF
GLD	SPDR Gold Shares

Eligible entrants could win a prize in any one of three categories: the highest cumulative return, lowest annualized volatility, and highest reward/risk ratio. The performance measurement period roughly included half a year, from April through September. Performance was measured as if portfolios were rebalanced to their initial allocation weekly, at a zero transaction cost.

HIGHEST CUMULATIVE RETURN WINNER: MARGUERITE BOSLAUGH

Over such a short time span, it is reasonable to expect that a concentrated portfolio would have the highest return, so we were surprised not to see more single-asset portfolios submitted. Only six entries concentrated their allocations in a single instrument, and all six were unique. Marguerite Boslaugh won the prize for highest cumulative return with a portfolio entirely comprised of VTI. Interestingly, hers was the only single-instrument portfolio with a positive return during the six month contest period.

LOWEST VOLATILITY WINNER: VLADIMIR MARTINAK

Anticipating a flood of entries with a portfolio of 100 percent GSY, we limited allocations to that ETF at 20 percent. As a result, we received a veritable flood of entries (15) each with the same allocation: 20 percent GSY/80 percent BND. This choice turned out to be the lowest volatility combination. Fortunately, as a tie breaker, we required entrants predict their eventual volatility. Vladimir Martinak's prediction of 3.50 percent was closest to the actual volatility of 3.90 percent, measured weekly and annualized.

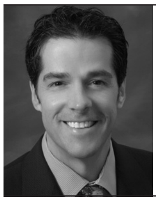
HIGHEST RETURN/VOLATILITY RATIO WINNER: MELISSA KNOPP

Not wishing to entertain quibbles about anybody's connotation of Sharpe Ratio, we simply called this category Ratio of Return/Volatility. It might not be a great surprise to learn that the highest returning portfolio over such a short time span also enjoyed the highest return/volatility ratio. As the contest rules allowed each entrant only one prize, this category's prize went to Melissa Knopp, whose five-instrument portfolio of BND, RWO, DBC, VTI and ACWI ranked next in line after Marguerite.

Looking ahead, plans are already underway for a follow-up 2014 Investment Contest along the same lines as last year's contest. We will modify the rules to allow a few interim portfolio reallocations and to reflect transaction costs. Watch your email inbox for an invitiation to the 2014 contest.

ENDNOTES

1 We refer to the choices in this contest as ETPs and not as Exchange Traded Funds (ETFs) because the menu includes both ETFs and DBC, which is an Exchange Traded Note (ETN). An ETN is an unsecured debt instrument for which the sponsor promises to pay the relevant return. Unlike ETFs, ETNs entail counterparty risk. However, for some asset classes and strategies—typically any that involves futures—liquid, affordable ETFs do not exist and ETNs are the only choice available.



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