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# 2016 Investment Section Asset Allocation Contest Winners Announced!

By Jim Kosinski

After five months of up-and-down markets (mostly up, fortunately), the Asset Allocation Contest winners were announced at the Investment Section breakfast at the SOA 2016 Annual Meeting & Exhibit in Las Vegas. The prize-winners were Nick Fiechter for the Create Alpha contest, Troy Dempsey for the Accumulation contest, and Ken Westover for the Drawdown contest.

This year, the markets were cooperative. For last year's contest nine of the 10 asset classes went down (the sole exception being short-duration bonds), which led to a decision to increase the number of asset classes to 20 this year. This year, all 20 asset classes had positive returns over the five-month contest, although there were some wild rides. Twenty of the 100 monthly returns were gains of 3 percent or better, six were drops of 3 percent or worse. The benchmark 60/40 portfolio (60 percent ACWI/40 percent BND) produced a return of 4.2 percent and an annualized volatility of 9 percent.



Jeff Passmore speaking at Investment Section breakfast.

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One interesting curiosity of the market performance for this year’s contest is that a “buy the losers” strategy would have been dominant. A strategy that held the benchmark portfolio for May, and rebalanced at each month-end to be fully invested in the asset class that performed worst in the previous month, would have returned 14.2 percent after rebalancing costs! This compares to a best-asset-class buy-and-hold return of 11.3 percent (Russell 2000), and is significantly better than the best return achieved by an Alpha contest entry (9.8 percent). Very few contest entries made use of the rebalancing option; maybe more will next year.

The “Create Alpha” contest tested people’s ability to construct a portfolio that outperformed a “traditional” 60/40 benchmark portfolio after adjusting for risk. Roughly half the contest entries (24 of 46) generated positive alpha. The redesigned contest objective of promoting risk-taking while limiting volatility worked as intended, as all but one of the “positive alpha” portfolios had volatility less than 13 percent, and all but three had returns in excess of the 4.2 percent benchmark return. Nick Fiechter won the prize with a return of 8.0 percent and a 9.6 percent volatility, for an alpha of 3.5 percent.

The “Accumulation” contest tested participant’s ability to maximize a portfolio’s accumulated value, with a starting value of 100 and four “contributions” of 10 coming in at each month-end. There was also a monthly “portfolio review” process that cut underperforming portfolios. The “portfolio review” was designed to encourage portfolios to track the benchmark more closely, and it did punish some portfolios: the May portfolio review saw the exit of five entries that were fully allocated to gold, and July saw the cut of two entries fully allocated to commodities. However, many concentrated portfolios survived the portfolio reviews, including the winner. Troy Dempsey won (via tiebreaker) with a final value of 152.64.

The “Drawdown” contest tested how long participants could maintain a portfolio through time, starting with 100 and withdrawing one per trading day. The contest period encompassed 107 trading days, so not running out of money before Sept. 30 was a difficult task. Ken Westover almost managed it, finally exhausting his portfolio with a withdrawal of 0.87 on Sept. 29.



Nick Fiechter receiving his winnings  
(l-r) Jeff Passmore, Nick Fiechter, Jim Kosinski.

Full results are available on the Investment Section webpage on the SOA website.

Thank you again for participating in the 2016 contest! We hope you enjoyed this year's changes; our hope was that they would make the contests more realistic and interesting and we think they mostly succeeded. What do you think? We always appreciate feedback or suggestions on how we can improve the contest. Feel free to reach out to Leslie Smith (lsmith@soa.org) with your feedback and she will pass it along to the Section Council.

We hope you will participate in the 2017 contest! ■



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## INVESTMENT SECTION—REDINGTON PRIZE NOMINATIONS

The Investment Section Council is now seeking nominations for the 2017 Redington Prize recognizing the best paper written by an actuary on an investment-related topic during the last couple of years. The prize is sponsored by the Investment Section and is named after F. M. Redington, the eminent British Actuary who coined the term “immunization” in a 1952 paper that was published in the *Journal of the Institute of Actuaries*.

The 2015 Redington Prize winning paper was, “Optimal Portfolios Under Worst Case Scenarios,” by Carole Bernard, Jit Seng Chen, FSA, and Steven Vanduffel, and its authors collectively won a \$10,000 cash award.

**The criteria for selection and basic participation details are as follows:**

**Publication Years:** The paper must have been published during the calendar years 2015 or 2016.

**Author(s):** The author of the paper must be a member in good standing of the Society of Actuaries (SOA), Casualty Actuarial Society, American Academy of Actuaries, Conference of Consulting Actuaries, American Society of Pension Professionals and Actuaries, Canadian Institute of Actuaries, or Institute and Faculty of Actuaries, must be a legal resident of the U.S., Canada or the United Kingdom, and must be at least 18 years of age. Additional eligibility requirements (including requirements relating to papers with multiple authors) are set out in the Official Rules, available through the hyperlink below.

**Content:** The topic of the paper must be judged to be original, practical and be primarily of investment nature and of substantial value to SOA members and to other investment professionals.

**Source and language:** The paper must be published in a peer-reviewed journal which can include but is not limited to *North American Actuarial Journal*, *The Journal of Portfolio Management*, *Financial Analysts Journal*, *Journal of Finance*, and *Journal of Financial and Quantitative Analysis*. The paper must also be drafted in English.

**Judging:** The selection criteria include intellectual rigor, practical significance, investment content, educational value, and originality. The Council reserves the right to choose not to award a prize.

**Nomination:** Papers must be submitted via e-mail to Investment Section at [sections@soa.org](mailto:sections@soa.org) or mailed to the SOA, attention: Investment Section, 475 N. Martingale Rd., Suite 600, Schaumburg, Illinois, 60175 USA.

**Prize:** One Grand Prize of USD \$10,000 will be awarded to the winning paper's eligible author(s).

**Additional details:** The submission period opens at 12:01 a.m. CST on Feb. 28, 2017 and closes at 11:59 p.m. CDT on June 2, 2017. Void where prohibited. No purchase necessary. Other restrictions may apply. See Official Rules for eligibility, odds of winning, how to enter, and other details: [www.soa.org/redingtonrules2017](http://www.soa.org/redingtonrules2017)



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