Relative Strategic Performance

For over 20 years, this site has focused on active investing, based on a momentum framework known as Decisionmoose. Index Moose was extremely successful at beating the benchmark S&P 500 for 15 of those 20 years, but after calling the 2008 financial meltdown, the Moose has struggled.

Investors who visit this site are looking for a practical investment strategy. If our active momentum strategy isn't optimal at the moment, it might be useful to identify the next best option. In the past two weeks, we have discussed passive investment strategies and dynamic diversification as alternatives to momentum investing. Performance-wise, we find that—in recent years-- both have begun to compare favorably with the momentum model. Recapping the last two weeks' findings:

Strategy	Portfolio (12/30/16)	1 year	5 year	10 year	15 year	3-year Sharpe
Benchmark	S&P (SPY)	+10%	+73%	+59%	+94%	2.08
Momentum 100	Index Moose	-6%	-12%	+39%	+576%	-1.85
Passive G	Growth—60-40	+7%	+21%	+60%	+161%	1.86
Passive A	Aggressive—80-20	+9%	+17%	+44%	+165%	1.29
Dynamic Long	Growth—60-40x200	+8%	+16%	+56%	+112%	2.59
Dynamic Medium	Growth—60-40x90	+7%	+12%	+57%	+125%	0.74
Dynamic Short	Growth—60-40x50	+8%	+13%	+38%	+99%	0.88

(Passive diversification refers to portfolios comprised of several non-correlated equity and income assets. The percentage attributed to each asset in the portfolio is fixed and is determined by the investor's willingness and ability to accept risk. Dynamic Diversification applies active management principles to a diversified portfolio in real time to reduce exposure to the weakest assets while maintaining exposure to the strongest. It is an amalgam of active and passive strategies.)

The table above attempts to address the "what-have-you-done-for-me-lately" question. The flip-side of performance, however, is risk. Picking a sound investment strategy is never solely about current performance, it is also about knowing what can happen at the extremes. How a strategy behaves in secular (long term) bull and bear markets is highly pertinent.

Since this website came about in 1995, I've counted five secular markets. The '95-to-Y2K bull market was followed by the 2000-2003 Tech Wreck bear. The subsequent 2003 to 2007 bullish recovery was followed by the 2008-09 Financial Meltdown bear. That in turn, has been followed by the '09-'16 Fed-QE Bull.

The following table provides an overview of comparative strategic performance during those five periods using the same ETF data currently used in Index Moose. For more detail on the passive and dynamic strategies, see this space the past two weeks. (That several ETFs in the model did not exist prior to 2001 is the reason diversification results are not available for the two earliest periods. Index Moose initially used several mutual funds, which have since gone out of business, making the reconstruction of comparable historical data impossible.)

Strategy	Portfolio (12/30/16)	'96-'00 BULL	'00-'03 BEAR	'03-'07 BULL	'07-'09 BEAR	'09-'16 BULL
Benchmark	S&P (SPY)	+241%	-51%	+90%	-57%	+225%
Momentum 100	Index Moose	+275%	+178%	+199%	+5%	+8%
Passive G	Growth—60-40	na	na	+94%	-23%	+97%
Passive A	Aggressive—80-20	na	na	+138%	-34%	+101%
Dynamic Long	Growth—60-40x200	na	na	+43%	+3%	+43%
Dynamic Medium	Growth—60-40x90	na	na	+52%	+1%	+52%
Dynamic Short	Growth—60-40x50	na	na	+56%	0%	+33%

The table indicates that Index Moose (momentum) has outperformed the benchmark S&P in four of the last five secular markets, and it has outperformed both passive and dynamic diversification as well, in two of the last three secular markets. In the most recent secular bull market, however, Index Moose has underperformed both the benchmark and alternative strategies by a considerable margin. None of our other strategies outperformed the benchmark in the most recent bull market either, but the best performing strategies have been totally passive. Unfortunately, totally passive strategies can take pretty big hits in secular bear markets. In that instance, a more dynamic approach is warranted.

In other words, timing is everything when it comes to measuring performance. It is also everything when it comes to picking a strategy. The current market environment can have a deep impact on the effectiveness of one's investment strategy.