Past performance may be a guarantee of future results

By: Alexia Bevers

Abstract

Background: Sam Stovall, author of *The Seven Rules of Wall Street: Crash-Tested Investment Strategies That Beat the Market*, has an investment strategy called There's Always a Bull Market Someplace (Stovall, 2009).

Hypothesis: Though one of the frequently-heard sayings in finance is, "Past performance is not a guarantee of future results," this study seeks to see how this investment strategy, specifically in regard to sectors, has done over the last 10 years since Stovall published his book.

Methodology: Sector performance data, specifically 12-month leading price performance, is used to calculate risk, risk-adjusted return, compound annual growth rate, and the frequency of beating the S&P 500. The top 3 sectors should be held in a portfolio until the sector falls out of the top 3, and then the new sector that has reached the top 3 will be added to the portfolio. The portfolio should be updated each month.

Expected Results: This investment strategy is expected to have higher returns than the S&P 500 more than 66% of the time, indicating that it is a useful investment strategy.

Conclusion: This study will attempt to show that investors who took Stovall's advice in 2009 could have had healthy returns on their investment and analyze how much those returns could have been.

Bevers, A. (2019, April). *Past performance may be a guarantee of future results*. Poster session presented at the Research and Scholarship Celebration, Western Carolina University.

Past performance may be a guarantee of future results

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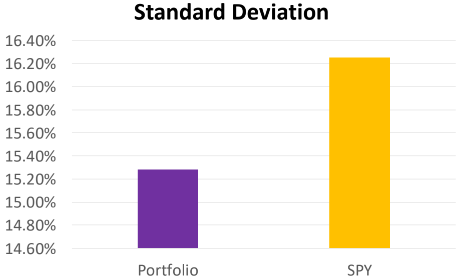
ABSTRACT

Background: Sam Stovall, author of *The Seven Rules of Wall Street: Crash-Tested Investment Strategies That Beat the Market*, has an investment strategy called There's Always a Bull Market Someplace (Stovall, 2009). **Hypothesis:** Though one of the frequently-heard sayings in finance is, "Past performance is not a guarantee of future results," this study seeks to see how this investment strategy, specifically in regard to sectors, has done over the last 10 years since Stovall published his book. **Methodology:** Sector performance data, specifically 12-month leading price performance, is used to calculate risk, risk-adjusted return, compound annual growth rate, and the frequency of beating the S&P 500. The top 3 sectors should be held in a portfolio until the sector falls out of the top 3, and then the new sector that has reached the top 3 will be added to the portfolio. The portfolio should be updated each month. **Expected Results:** This investment strategy is expected to have higher returns than the S&P 500 more than 66% of the time, indicating that it is a useful investment strategy. **Conclusion:** This study will attempt to show that investors who took Stovall's advice in 2009 could have had healthy returns on their investment, and analyze how much those returns could have been.

INTRO / GOALS / OBJECTIVES

Sam Stovall, author of *The Seven Rules of Wall Street: Crash-Tested Investment Strategies That Beat the Market*, has an investment strategy called There's Always a Bull Market Someplace (Stovall, 2009), where he uses a 12-month look-back on price change to determine what sectors to own for the following month, and the portfolio of the top 3 sectors' ETFs is updated at the end of each month. My goal is to analyze this investment strategy and determine if it is successful, and if yes, how successful it has been since Stovall published his book.



METHODS

I imported the raw data for each of the 11 industry ETFs and the S&P 500 ETF from finance.yahoo.com. I then calculated the 12-month rolling price change monthly for each ETF. Using the RANK.EQ formula in Excel, I ranked the ETFs in descending order, with 1, 2, and 3 being the ETFs with the highest 12-month trailing price change each month. Then, using a conditional statement, if the rank were 1, 2, or 3 for a month, return was calculated for the ETF the following month. The portfolio return was then calculated and compared to the S&P 500 Sector ETF to determine the frequency the portfolio beat the S&P 500 Sector ETF.

There's Always a Bull Market Someplace: Sam Stovall's investment strategy is named after the slogan "bull market," which is a market where share prices are rising. This encourages investors to buy stocks. Ironically, Stovall's book was published in the middle of the Great Recession.

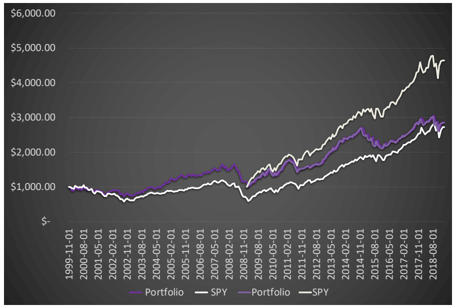
Return comparison

Then, using an initial $1000 dollar investment in both 1999 and 2009, I determined how the money would have grown if this investment strategy was followed. I then calculated average annual return, compound annual growth rate, and a return-for-risk ratio.

RESULTS

The There's Always A Bull Market Someplace investment strategy showed to only beat the S&P 500 Sector ETF 57.33% of the time, less than the expected 66%. However, the portfolio's return (average, average since 2008, and compound annual growth rate) all beat the S&P 500 Sector ETF (*see Return comparison graph). Furthermore, the portfolio's risk is 97 basis points lower than the benchmark (*see Standard Deviation graph). If you compare their return-for risk ratio, you see that the portfolio would return 78 cents for every $1 of risk, and the S&P 500 Sector ETF would return almost 77 cents for every $1 of risk.

Investment strategy comparisons



As you see in the chart above, I compared a $1,000 investment in the There's Always a Bull Market Someplace portfolio with a $1,000 investment in the S&P 500 Sector ETF (ticker SPY). I looked at investing as soon as data was available (November 1st, 1999) and around the same time Sam Stovall published *The Seven Rules of Wall Street* (January 1st, 2009). These dates are almost ten years apart. You can see that the investment in the There's Always a Bull Market Someplace portfolio returns very close to the same amount ($2,865.88 if invested in '99 and $2,836.80 if invested in '09) regardless of when the $1,000 is invested. However, the investment in SPY has very different outcomes - $2,722.48 if invested in '99, and $4,634.99 if invested in '09. This shows that the SPY had a greater average return from '09-'19 than from '99-'19.

CONCLUSIONS AND RECOMMENDATIONS

The portfolio did not perform as I had expected, only beating the benchmark 57.33% of the time rather than the hoped 66% of the time. However, beating the market greater than half the time isn't bad for an investment strategy. The portfolio has healthy returns compared to the benchmark, but not as high as the commonly-known S&P 500 return of 10% on average. My recommendations are:

- Research the There's Always a Bull Market Someplace investment strategy for industries rather than sectors and see how it compares with the S&P 500.
- Invest in the There's Always a Bull Market Someplace for sectors strategy if you want something less risky than the S&P 500 Sector ETF.

Whether you choose this investment strategy or not, you should be investing in something. As Albert Einstein said, compound interest is "the eighth wonder of the world," and financial freedom can be gained through investing.

References

1. Stovall, Sam. (2009) *The Seven Rules of Wall Street.* The McGraw-Hill Companies.

Acknowledgements

Thanks to Dr. Grace Allen and Sam Stovall for assisting me in the research process.

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