Asset Allocation

Back in the Hunt

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The article explores the feasibility of market timing, often considered an investing sin, using a combination of contrarian and trend-following strategies. Authors apply these ideas to stocks and bonds and their combination; arguing that if employed in moderation, market timing can be a virtue.

To be sure, market timing is very hard. For those who think market timing a two-asset mix of stocks and bonds is impossible, authors give some measured hope, while for those who think it's easy, authors show that it isn't. The authors' advice is therefore to "sin a little."

The authors suggest the following practical recommendations for market timing:

- **Combine signals**: Contrarian and trend following signals tend to diversify one another and seem to work best as equal partners.
- **Breadth is important**: Timing across asset classes (more than one) is important, as is using multiple signals; contrarian and trend following (among other styles like carry, low risk, and high quality) are shown to be useful. So use timing in as many places as possible.
- **Timing is a modest reward-for-risk strategy**: Timing has the potential for rewards, but it is not a high-return-for-risk strategy. As such, investors should employ timing, but only in very moderate amounts.
- **Act in moderation, not binary**: Don't employ market timing by getting in or out of an asset class entirely. It makes much more sense (and more likely to succeed over the long haul) to own less of an asset class when you are less positive on it, and vice-versa.

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