

Presenting to The Individual Finance and Insurance Decisions (IFID) Centre at The Fields Institute

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## Lessons from Capital Market History

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### Some “Spurious” Beliefs on Capital Markets and Investment Strategies

- Business Cycles are Predictable
- Stock Market Cycles last for 4 Years
- Market Timing is a High Odds Strategy
- The Market is Efficient
- You Can't Beat the Market
- Risk is Standard Deviation of Returns
- Stocks Outperform Bonds
- International Diversification is Dead
- The Small Cap Effect Has Disappeared
- Growth/Glamour Stocks are Better Bets than Unloved Stocks

# Stock Market Cycle Lasts for 4 Years

## Bull Markets Last Longer Than Bear Markets

### TSE 300: A Historical Overview

#### Bull vs. Bear Markets

Period	Market Type	# of Months	Period Cumulative Return (%)	Period Annualized Return (%)	
Jul 60 - May 69	Bull	107	203.2	13.2	
May 69 - Jun 70	Bear	13	-23.3	-21.8	
Jun 70 - Oct 73	Bull	40	81.9	19.7	
Oct 73 - Nov 74	Bear	13	-33.1	-31.0	
Nov 74 - Apr 81	Bull	77	266.0	22.4	
Apr 81 - Jun 82	Bear	14	-37.2	-32.6	
Jun 82 - Aug 87	Bull	61	252.6	28.1	
Jul 87 - Nov 87	Bear	4	-25.4	-25.4*	
Nov 87 - Apr 98	Bull	125	247.3	12.7	
Apr 98 - Sep 98	Bear	5	-26.2	-26.2*	
Sep 98 - Aug 00	Bull	23	105.8	45.7	
Aug 00 - Sep 02	Bear	25	-43.2	-23.8	
Sep 02 - Dec 03	Bull	15	22.5	22.5	
Average Duration of Bear Markets		12	Months	1.0	Years
Average Duration of Bull Markets:		64	Months	5.3	Years
		Total TSE 300		Bull	Bear
Combined Cumulative Return (%)		6177.54	62200.95	-89.92	
Combined Annualized Return (%)		9.98	18.81	-31.08	
Number of Months		522	448	74	

NOTE: This chart assumes a Bear Market as -20% on the Period Cumulative Return Column throughout the Bear Market Period whereas the previous chart whereas the previous chart assumes a Bear Market as a -20% change over any time period.

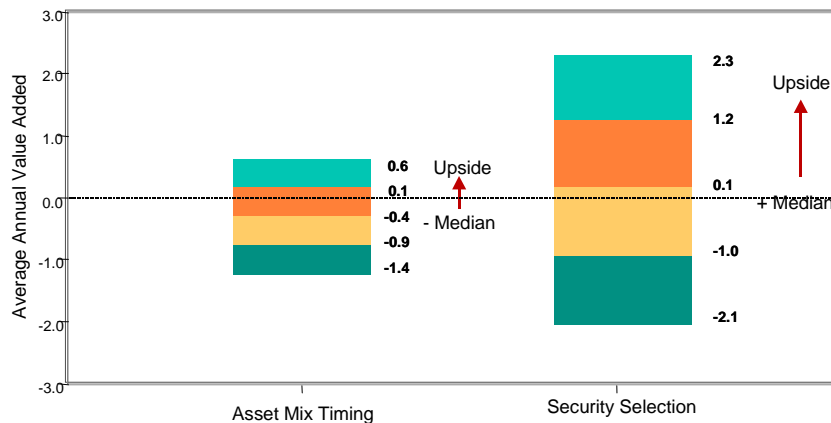
\* Jul 87-Nov 87, Apr 98-Sep 98 is only 4 months - so it hasn't been annualized as it is less than one year

3 Data Sources: William M Mercer Ltd & Bloomberg

# Market Timing Is A High Odds Strategy

## Market Timing Track Record- North American Value Added Experience

### (Three US and Three Canadian Studies)



### Conclusion: Traditional Market Timing Does Not Work

4 Source: The Portable Pension Fiduciary, by John Ilkiw

# The Market is Efficient

Table 4: Fifty Largest Postwar Movements in S&P Index and Their "Causes"

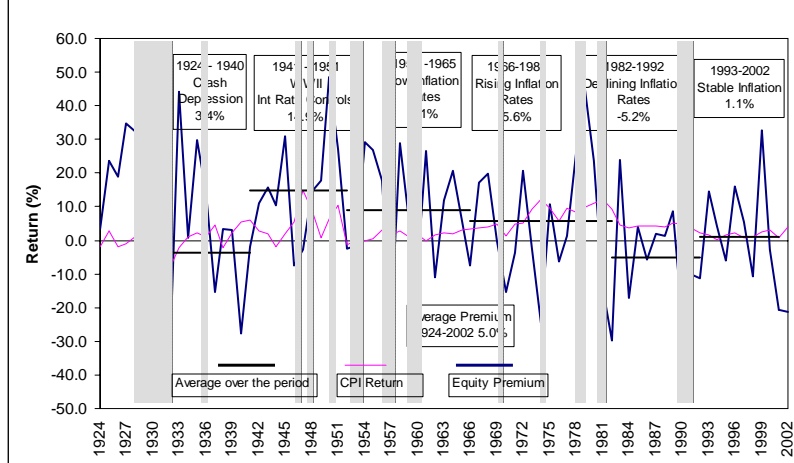
Date	Percent Change	New York Times Explanation
1 Oct. 19, 1987	-20.47%	Worry over dollar decline and trade deficit; Fear of US not supporting dollar.
2 Oct. 21, 1987	9.10%	Interest rates continue to fall; deficit talks in Washington; bargain hunting.
3 Oct. 26, 1987	-8.28%	Fear of budget deficits; margin calls; reaction to falling foreign stocks
4 Sep. 3, 1946	-6.73%	"...no basic reason for the assault on prices."
5 May 28, 1962	-6.68%	Kennedy forces rollback of steel price hike.
6 Sep. 26, 1955	-6.62%	Eisenhower suffers heart attack.
7 Jun. 26, 1950	-5.38%	Outbreak of Korean War.
8 Oct. 20, 1987	5.33%	Investors looking for "quality stocks".
9 Sep. 9, 1946	-5.24%	Labor unrest in maritime and trucking industries.
10 Oct. 16, 1987	-5.16%	Fear of trade deficit; fear of higher interest rates; tension with Iran.
11 May 27, 1970	5.02%	Rumors of change in economic policy. "...the stock surge happened for no fundamental reason."
12 Sep. 11, 1986	-4.81%	Foreign governments refuse to lower interest rates; crackdown on triple witching announced
13 Aug. 17, 1982	4.76%	Interest rates decline.
14 May 29, 1962	4.65%	Optimistic brokerage letters; institutional and corporate buying; suggestions of tax cut
15 Nov. 3, 1948	-4.61%	Truman defeats Dewey.
16 Oct. 9, 1974	4.60%	Ford to reduce inflation and interest rates.
17 Feb. 25, 1946	-4.57%	Weakness in economic indicators over past week
18 Oct. 23, 1957	4.49%	Eisenhower urges confidence in economy.

Source: NBER Working Paper 2538 – What Moves Stock Prices? – D Cutler, J Poterba, L Summers

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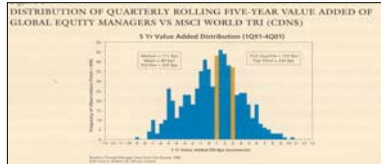
# Stocks Outperform Bonds

Annual Equity Premium 1924-2002\*



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# You Can't Beat the Market



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Source : "Perspectives on Institutional Investment Management" by Harry S. Marmar, Rogers Publishing, 2002