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## Active versus Passive Strategies for EAFE and the S&P 500

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### Abstract

The authors establish a dynamic asset allocation strategy investing in EAFE and the S&P 500 indexes to time the market and generate a superior abnormal return on a portfolio. A prediction model built on public information variables can forecast the upcoming movements of the two indexes for 1978 through 1999. Even with transaction costs, out-of-sample tests show an investor can rely on model signals to allocate assets between the indexes and produce significantly more terminal wealth than would passive portfolios invested in either index alone.

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