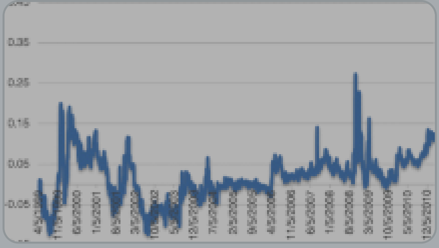
Equity-style timing: A multi-style rotation model for the Russell large-cap and small-cap growth and value style indexes

Paper | Published: 01 May 2007

Volume 8, pages 9–23, (2007) Cite this article

Journal of Asset Management

outperform the best performing buy-and-hold portfolio. The profitability of such strategies is robust to reasonable levels of transaction costs.



[State-dependent size and value premium: evidence from a regime-switching asset pricing model]

[Assessing stock market contagion and complex dynamic risk spillovers during COVID-19 pandemic]

Notes

1. Inception date of the Frank Russell Company style indexes.

2. ETFs provided by Barclay Global Fund Advisors: iShares Russell 1000 Value (IWD), iShares Russell 1000 Growth (IWF), iShares Russell 2000 Value (IWN), and iShares 2000 Growth (IWO).

US 30-day T-bills returns.

7. The difference between the earnings to price ratio (E/P) of the S&P500 and the long-term government bond yield.

8. The geometric mean difference between long-term corporate and government bond returns.

9. We have also performed the analyses for various alternative definitions of bull and bear markets, including the bull (bear) market definitions suggested: that is, when the market excess return (S&P500 return less the one-month *t*-bill rate) is positive (negative), the market is characterised as a bull(bear) market; the extreme bull (bear) market definition is also used: a market is an extreme

large-cap (small-cap) portfolios, the terminal wealth on a \$100 investment in January 1984 to December 2000 would have been \$1253.99 (\$579.76) corresponding to a monthly return of 1.022 per cent (0.86522 per cent). Using the Fama–French Value vs Growth benchmarks, we note that the terminal wealth on a \$100 investment in the Fama–French Value (Growth) in January 1984 to December 2000 would have been \$1,136.08 (\$1,172.253) corresponding to a monthly return of 1.19838 per cent (1.21392 per cent). It is interesting to note that none of these style portfolios performs as well as the S&P500, let alone the default strategy.

13. First-year trading costs amount to 27 bps (25 bps for buying a 100 per cent of the index selected by our model and 2 bps for selling 4 per cent of the portfolio at the end of June).

$t+1>0.35$) for one or more of the indices, then invest 100 per cent in the index with the highest conditional probability; or else if (Prob $t+1 \leqslant 0.35$), invest 50 per cent in both the Russell 1000 Growth index and the Russell 2000 Growth index.

References

Ahmed, P., Lockwood, L. and Nanda, S. (2002) 'Multistyle Rotation Strategies', Journal of Portfolio Management, 28, 17–29.

Article Google Scholar

Amenc, N., El Bied, S. and Martellini, L . (2003) 'Evidence of Predictability in

Barberis, N. and Shleifer, A. (2003) 'Style Investing', Journal of Financial Economics, 68, 161–199.

Article Google Scholar

Bauman, W. S. and Miller, R. E. (1997) 'Investment Expectations and The Performance of Value Stocks versus Growth Stocks', Journal of Portfolio Management, 23 (3), 57–68.

Article Google Scholar

Black, A. J. (2002) 'The Impact of Monetary Policy on Value and Growth Stocks: An International Evaluation', Journal of Asset Management, 3, 142–172.

Copeland, M. M. and Copeland, T. E. (1999) ‘Market Timing: Style and Size Rotation Using the VIX’, Financial Analysts Journal, 55, 73–81.

Article Google Scholar

Fama, E. and French, K. (1989) ‘Business Conditions and Expected Returns on Stocks and Bonds’, Journal of Financial Economics, 25, 23–49.

Article Google Scholar

Ferson, W. and Harvey, C. (1991) ‘Sources of Predictability in Portfolio Returns’, Financial Analysts Journal, 47, 49–56.

Article Google Scholar

Article Google Scholar

Jensen, G. R., Mercer, J. M. and Johnson, R. R. (1996) 'Business Conditions, Monetary Policy, and Expected Security Returns', Journal of Financial Economics, 40, 213–237.

Article Google Scholar

Kao, D. L. and Shumaker, R. (1999) 'Equity Style Timing', Financial Analysts Journal, 55, 37–48.

Article Google Scholar

Keim, D. and Stambaugh, R. (1986) 'Predicting Returns in the Stock and Bond Markets', Journal of Financial Economics, 17, 357–390.

Stocks, and Vice-Versa?', Working Paper, Investment Consulting Group Inc. and University of St. Gallen.

Park, K. and Switzer, L. N. (1996) 'Mean Reversion of Interest-Rate Term Premiums and Profits from Trading Strategies with Treasury Futures Spread', Journal of Futures Markets, 16, 331–352.

Article Google Scholar

Resnick, B. G. and Shoesmith, G. L. (2002) 'Using the Yield Curve to Time the Stock Market', Financial Analysts Journal, 58, 82–90.

Article Google Scholar

Finance Department, Van Berkom Endowed Chair of Small Cap Equities, John Molson School of Business, Concordia University, Montreal, H3G 1M8, Quebec, Canada

Lorne N Switzer

Corresponding author

Correspondence to Lorne N Switzer.

Rights and permissions

About this article