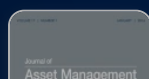


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# Equity-style timing: A multi-style rotation model for the Russell large-cap and small-cap growth and value style indexes

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

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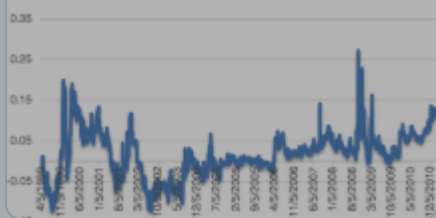
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## Notes

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).

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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

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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).

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

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