Session 34

Market Timing: Does it work?

Test

1. Equity mutual fund managers reveal their market views through the proportion of their portfolios they hold in cash. As they get more bullish, which of the following would you expect to see happen?
    a. The cash holdings of mutual funds should be unchanged
    b. The cash holdings of mutual funds should increase
    c. The cash holdings of mutual funds should decrease
    How would you check to see if mutual funds are good market timers?
2. Tactical asset allocation funds are mutual funds that sell themselves as market timers, investing more in stocks ahead of up moves in the markets and pulling out of stocks ahead of market downturns. What do tactical asset allocation funds deliver as returns?
    a. They do much better than the overall market
    b. They do better than fixed allocation mixes (where the equity/bond/cash mix stays unchanged).
    c. They do worse than the market but better than fixed allocation mixes
    d. The do better than the market but worse than fixed allocation mixes
    e. They do worse than both the market and fixed allocation mixes
3. Investment newsletters often pride themselves on their ability to call future moves in the market. Which of the following statements best summarizes the studies that have looked at the market timing ability of newsletter writers?
    a. They deliver higher returns than a buy and hold strategy but there is no evidence of any continuity of performance (winners don't stay winners).
    b. They deliver higher returns than a buy and hold strategy and there is evidence of continuity of performance (winners stay winners).
    c. They deliver lower returns than a buy and hold strategy and there is no evidence of any continuity of performance.
    d. They deliver lower returns than a buy and hold strategy and there is evidence of continuity of performance (but more with bad than good market timing).
4. There is some evidence that professional market timers are able to time the market, shifting money into stocks just before they go up and out of stocks before they go down. As investors, though, which of the following problems would you face in putting their recommendations into practice?
    a. The timing calls tend to be long term and far too infrequent.
    b. The timing calls tend to be very short term and far too infrequent.
    c. The timing calls tend to be long term and far too frequent.
    d. The timing calls tend to be very short term and far too frequent.
    Explain why.
5. If you are a market timer, which of the following strategies can you use to time markets?

a. Change your asset allocation mix, shifting more of your portfolio to asset classes that you are bullish on and away from asset classes where you are bearish.
b. Switch investment styles from value to growth or vice versa, depending upon expected economic and market performance.
c. Shift your money across sectors as a function of where you believe the overall market (economy) is in the cycle.
d. Use market index derivatives, i.e., stock futures and options, to speculate on market direction.
e. Any or all of the above