

Antonacci, Gary – Dual Momentum Investing

McGraw-Hill, 2015, [Finance] Grade ★★★★★

This is not a text on stock picking strategies as I mistakenly assumed; it's a book on asset allocation using momentum strategies. Gary Antonacci with a background in as diverse areas as the US Military, Harvard Business School and touring as a comedy magician, is a pioneer in developing derivative-based investment strategies. Here he's written a book aiming to take the academic underpinnings of momentum strategies and show how these can be profited from. The proposed strategy called Global Equities Momentum (GEM) uses a combination of relative momentum to decide where to invest within equities and absolute momentum to decide when to be in equities in the first place.

The book could broadly be divided into 3 parts. The first few chapters are a tour of the academic theory of efficient markets, of behavioural finance and of momentum investing but also of the history of momentum practitioners. The crude summary is that EMT is wrong and momentum investing works. The latter is thanks to behavioural factors. The reader is served a veritable who's who of financial academia and momentum investing and despite that in my opinion it's a bit over the top to refer to 217 academic papers and books on the 141 pages of *Dual Momentum Investing*, the text is still really enjoyable. However, if the reader hasn't a complete overview of academic research it is hard to control for the author's potential selection bias in which academic papers are brought forward. To the best of my knowledge the picture that is painted is reasonably objective.

The next set of chapters gives background information to the GEM strategy. A number of alternative asset classes and investment strategies are examined. The general conclusion is that investors haven't been able to generate alpha through them or that they haven't shown much absolute returns over time or that something else is wrong with them. Although I sympathize with momentum investing I found this part a bit over-selling. Basically noting works apart from momentum.

Mats Larsson, February 21, 2016

The last part of the book presents Antonacci's model and discusses tweaks and alternatives. The model looks to the performance over the last 12 months and matches the best performer of US stocks and international stocks against US T-bills. If the best performing equity index has outperformed T-bills then the money goes into this equity index. If not, then money will be invested in bonds. The strategy is executed through liquid ETFs with low transaction costs.

In the author's backtests the GEM strategy 1974 to 2013 gives a brilliant annual return of 17.4 percent, with a Sharpe ratio of 0.87 and a maximum drawdown of 22.7 percent. This is compared to a global equity index with 8.9 percent returns, 0.22 in Sharpe ratio and a maximum drawdown of 45.7 percent. As a side note, Warren Buffett's Sharpe ratio during about the same period was 0.76.

The strategy is a rather unassuming yet efficient combination of equity universe selection based on relative price momentum and a risk management strategy based on relative equity market momentum compared to T-bills. Since T-bills will return something close to zero, this latter could be said to be an absolute strategy. Since the stock indices lack a risk management strategy, the best relative performance for GEM is in stock market crashes. The absolute momentum part is obviously an intellectual cousin to using 200-day moving averages and Antonacci shows that the strategies yield very similar results.

The free spirited character and anti-authoritarian streak of Antonacci come forward in a nice way in the text. At the same time the author is extremely learned. If something I would have liked to hear more about Antonacci's own experiences in the markets to complement all the academic research.

I would say that the average investor would get much better investment returns by switching to the GEM strategy. However, if everybody did switch it would destabilize the financial markets - but this is clearly true of any investment strategy.