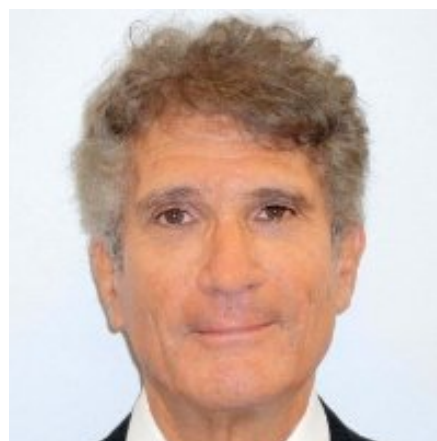
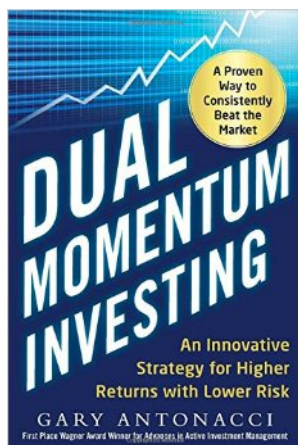


Author Interview

Antonacci, Gary – Dual Momentum Investing



Gary Antonacci has over 35 years' experience as an investment professional focusing on underexploited investment opportunities. His innovative research on momentum investing was the first place winner in 2012 and the second place winner in 2011 of the prestigious Wagner Awards for Advances in Active Investment Management given annually by the National Association of Active Investment Managers.

Antonacci is author of the award-winning book, *Dual Momentum Investing: An Innovative Strategy for Higher Returns with Lower Risk*. His research introduced the investment world to dual momentum, which combines relative strength price momentum with trend following absolute momentum. He is recognized as a foremost authority on the practical applications of momentum investing.

Antonacci received his MBA degree from the Harvard Business School in 1978. Since then, he has concentrated on researching, developing, and applying innovative investment strategies that have their basis in academic research. He serves as a consultant and public speaker on asset allocation, portfolio construction, and advanced momentum strategies.

blog: <http://www.dualmomentum.net/>

website: <http://www.optimalmomentum.com/index.html>

*InvestingByTheBooks: Gary, thank you very much for taking time to talk about your book *Dual Momentum Investing: An Innovative Strategy for Higher Returns with Lower Risk*. We enjoyed reading it very much. Let's kick it off by discussing how you in retrospect feel about the process of writing a book. I presume it was hard work but perhaps also a good way to collect your thoughts on momentum investing?*

Gary Antonacci: I had been collecting materials for the book for several years, so it almost wrote itself. I mostly just had to organize the information. I did gain some insight and clarity along the way, so writing the book was a rewarding experience for me, as well as, I hope, for others.

InvestingByTheBooks: One of the benefits of a rules based investment system is that it could protect the investor from his psychological biases. Still, you cannot shield yourself from the world completely; how do you cope psychologically with “whiplash markets”, where no real trend develops and all signals to take a position soon are reversed?

Gary Antonacci: Trendless markets don’t usually last for that long. It’s rare for dual momentum to reverse positions, since we are looking at a one-year performance window and not just what has happened over the past few months. Since 1971, when the Global Equities Momentum (GEM) model featured in my book began, the model exited and had to re-enter stocks within 3 months only 9 times. In contrast to this, the more common 10-month moving average was in and out of stocks 20 times. The losses we incurred from whipsaws were more than made up by the profits we earned from relative strength momentum. We were able to outperform buy-and-hold in the long-run during both bull and bear markets.

InvestingByTheBooks: A similar topic is the importance of managing the right type of money, i.e. funds from investors that don’t withdraw their money in times of less good performance. Could you share your thoughts on this topic and perhaps also some real-life examples?

Gary Antonacci: It’s important to educate clients about dual momentum so they can stay the course during occasional short-term market corrections. Dual momentum is a get rich slow approach that keeps in tune with major market trends. It doesn’t concern itself with short term market fluctuations. One should, in fact, embrace rather than be fearful of short-term volatility. Volatility leads to superior long-run momentum returns. Without volatility, returns would be mediocre at best. Dual momentum investors should keep the big picture in mind and remember that dual momentum with its absolute momentum rule has always kept us out of harm’s way during major bear markets. As a side note, the most reliable indicator of market bottoms I have found in my 40 years of managing investments is when someone becomes fearful and closes out their account. I can’t think of a single case where this has failed to signal a market reversal.

InvestingByTheBooks: We certainly agree that an investment strategy needs some type of risk management such as your absolute momentum rule. Avoiding drawdowns obviously also does wonders for the geometric returns. However, selling stocks when they start to perform poorly, isn’t this pretty much the same thing as the portfolio insurance that allegedly enhanced the stock market crash of 1989? - i.e. could your strategy become too popular?

Gary Antonacci: Portfolio insurance was different. It traded in the same direction as the market on a short-term basis, thereby accentuating short-term volatility. With dual momentum, we adjust positions only once a month and ignore short-term market noise. I don’t think dual momentum will ever become too popular because investors have too many biases against it. Some think momentum is too simple. It is also counter intuitive to buy things that have already gone up. The disposition effect causes investors to want to sell too early instead of buying. Momentum may also be ignored because of long-standing beliefs in value investing or buy-and-hold. Institutions are especially reluctant to accept the trend following part of dual momentum. They have all been taught that tactical asset allocation doesn’t work. They are also reluctant to adopt anything with tracking error that can lead to career risk.

InvestingByTheBooks: Without knowing the sales statistics, your book certainly seems to be very popular with over 235 customer reviews, on average giving it a 5 star rating, and it ranks number 10 of books sold in Investments & Securities. As you now and then point to the fact that momentum is a misunderstood strategy, were you surprised by the great response?

Gary Antonacci: I wasn't surprised since I figured people who took the time to read the book with an open mind (not everyone had one) would be receptive to its logic and to the results. The book shows how you can earn extraordinary returns while greatly reducing your exposure to market risk. Momentum is also an anomaly that has been researched and examined more thoroughly than anything else and is easy to use. The book also got a number of strong endorsements from prominent investment professionals before it went on sale.

InvestingByTheBooks: The less stellar returns of hedge funds post the financial crisis has been oft publicized and many attribute these returns to the inconsistent alpha generation of "risk premiums" such as value, momentum and size with regards to individual security selection during the same time. Do you see that these premiums are meeting capacity constraints and commoditization through smart beta ETFs, or do you have an alternative view?

Gary Antonacci: Not many hedge funds rely on factor-based investing. In my opinion, the poor performance of hedge funds is largely due to the exorbitant fees they charge and the fact that every Tom, Dick, and Harry can now start a hedge fund. I see no evidence yet of risk premium factors being near capacity constraints. Keep in mind that whenever someone buys a stock, someone else is selling it. So markets are never just one-sided. Some abnormal returns may diminish in the future as more participants load up on the buy side to the extent that anomalous profits existed in the first place.

In the case of size and value, it's not so clear that there are anomalous profits. Higher profits there may be due to their higher risks. Momentum does have a risk premium that may decrease with time as more participants invest in the same 100+ high momentum stocks, since momentum is a high turnover strategy. That is one reason why I don't use momentum with individual stocks. I use it instead with stock indices, which are much more scalable. Dual momentum frictional costs using indices are also very low compared to individual stock momentum.

InvestingByTheBooks: Related to this but perhaps not to momentum investing, what's your view of the current success of low volatility as a stock selection factor? Are we nearing a peak where the "secure" stocks have become too expensive and hence vulnerable?

Gary Antonacci: Similar to momentum, low volatility investing may have a behavioural foundation that contributes to its staying power. Low volatility investing may work because of leverage aversion. Investors are unwilling or unable to use leverage in their quest for higher returns. This leads them to buy high volatility stocks, which causes low volatility stocks to be undervalued. Low volatility stocks also have high tracking error that may keep many from using them. They have underperformed the market 12 of the past 20 years.

InvestingByTheBooks: In our view, much of the market internals is governed by a tug of war between momentum and reversal to the mean. Although they on average work on different time horizons they are actually dependent on each other. If trends didn't develop and run too far, stocks wouldn't become undervalued or overvalued. Hence, stock market trends are necessary for a value strategy. Similarly, if there were no counteracting force momentum trends would continue and take corporate valuations to absurd levels making momentum a self-defeating strategy. How do you see the interdependence of value and momentum as investment strategies?

Gary Antonacci: They work on different time intervals. Mean reversion becomes meaningful after 3 to 5 years of under or overperformance. Momentum manifests on a 6 to 12 month basis. Momentum could be what moves you from being undervalued to being over valued and vice versa. With momentum there is an initial underreaction to information followed later by an overreaction. Keep in mind though that momentum is a much stronger factor than mean reversion. It can and does exist at times without mean reversion.

InvestingByTheBooks: Apart from Dual Momentum Investing, which investment related books would you recommend our readers to dive into and why?

Gary Antonacci: The back of my book has a suggested reading list. Most of the recommended books deal with market psychology or behavioural finance. I suggest readers input "behavioural finance" into Amazon search, and then browse the reviews and the "look inside" feature of those books rated higher than 4 stars. Get those that look most interesting to you.

InvestingByTheBooks: Thank you kindly for this interesting talk.

GARY ANTONACCI IN 5 SECONDS

InvestingByTheBooks: Richard Dennis' or Bill Eckhart's position on raising turtles?

Gary Antonacci: Dennis was a great floor trader but a poor discretionary trader away from the floor. (He traded awhile for the hedge funds I managed in the 1980s). That is why he created the rules-based turtle approach.

InvestingByTheBooks: Beta adjusted momentum or not?

Gary Antonacci: Thoughtful portfolio selection with beta neither too high (you give back too much profit before trend following kicks in) nor too low (not enough movement contributing to higher returns).

InvestingByTheBooks: Traditional or trailing stop-loss?

Gary Antonacci: Absolute momentum beats both. Stops are no longer needed.

InvestingByTheBooks: Absolute momentum or relative momentum?

Gary Antonacci: Absolute is better, but why not use both?

InvestingByTheBooks: Canucks or Canadians?

Gary Antonacci: Canucks is fine eh, unless you're referring to someone who hates Vancouver's hockey team.

InvestingByTheBooks, February, 2016

www.investingbythebooks.com

@Investbythebook