

The Performance of Global Portfolio Recommendations

Abstract

In this paper, we report the first empirical tests concerning the performance of international investment strategies recommended by a panel of investment houses from 1982 through 2001. The data for this study comes from surveys published in the *Financial Report*, a confidential newsletter purchased by *The Economist Newspaper, Ltd.*, in 1989. In the surveys, the investment houses recommended strategic asset allocations among equity, bonds, and cash, as well as tactical equity allocations across six countries.

The performance of the recommended portfolio weights are compared to several pre-specified static benchmark portfolios. We also compare the returns of the recommended portfolio weights to a set of 1,000 returns that are generated by randomly shuffling the recommended weights. As a final measurement, we test whether the investment houses had superior information after adjusting for a set of conditioning variables.

In this sample, it appears that the investment houses had little skill at recommending tactical equity allocations across countries. However, it does appear that the investment houses, as a group, had some skill concerning strategic asset allocations. We find that the market crash of October 1987 may have had a profound effect on the strategic portfolio performance. Before the Crash, the investment houses, as a group, exhibit skill. That is, they outperform several static and dynamic benchmarks. After the Crash, it appears that the investment houses “overweighted” in bonds for a lengthy interval, which may have led to inferior performance.