



WEALTH MANAGEMENT, LLC

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The Cost of Cash

During times of investment crisis, some investors flee to safer investments. This past crisis was no exception. For the period 2008–2009, equity funds experienced \$243 billion of outflows.

Many investors feel safer staying in cash. In late March, *The Wall Street Journal* reported these figures: “As of March 16, assets stood at \$2.99 trillion, according to money-market fund tracker iMoneyNet, the first time they ended a week below \$3 trillion since passing that mark on Nov. 20, 2007.”

However, investors sitting in cash run the risk of inflation eroding their spending power. A November 2009 article on cash on CBS’s *MoneyWatch* noted, “All inflation is not created equal. Some things go up a lot, even when most prices remain stable or even decline. One is college tuition, and another is health care, a major concern for retirees. Even stocks may not keep pace with health care inflation (currently in the double digits, according to Buck Consultants) — and cash has no chance.”

In the majority of years, cash accounts can keep up with or slightly outpace inflation. Once taxes are figured into the equation, the figures look worse. The *MoneyWatch* article cited this data from Morningstar: Cash holdings earned an average of 3.7 percent per year from 1926 through 2008, while inflation averaged about 3 percent per year. The after-tax returns of cash accounts were about 2.3 percent.

When investor confidence is shaken, sitting in cash can feel comfortable. That comfort comes at a price, and investors may not realize how steep that price can be. It is important to realize the costs associated with comfort and safety.

Is Technical Analysis Profitable in Equity Indexes?

By Ben Marshall

Technical analysis uses historical price and volume movements to generate buy-and-sell signals. This investment technique continues to be popular with the investment community, yet there is much debate over whether it can add value. In a recent paper, we tested the profitability of more than 5,000 trading rules on the 49 MSCI-EAFE developed and emerging market equity indexes. Such rules are often used by investors when they are deciding whether to enter or exit a market.

There are a huge number of possible trading rules, which raises the possibility that a given rule will appear profitable on a particular data series due to chance. The possibility of such a chance finding needs to be accounted for using statistical techniques, so we adopted these in our paper.

Most researchers have found that technical trading rules do not add value in the U.S. equity market, but the historical evidence is more favorable to technical analysis in emerging markets. However, it is difficult to compare the results from previous studies across countries, as they use different time periods, different trading rules and different statistical techniques.

We compared more than 5,000 of the most common rules (different variations of moving average, filter, support and resistance and channel breakout rules) across 49 markets from January 2001 through December 2007. We chose MSCI-EAFE indexes because these benchmarks are frequently used by fund managers.

Although we found evidence of some trading rules generating returns in excess of the average buy-and-hold market return in each of the 49 market indexes, these returns were not statistically significant once we accounted for the possibility they could be due to random chance.

We can conclude from our research that there is no evidence that the technical trading rules we tested added value over the seven-year period we considered, beyond what may be attributed to random data variation. It appears that investors using these rules would not have consistently earned better returns than a simple buy-and-hold strategy.

About This Commentary: A summary of the working paper “Technical Analysis Around the World” by Ben Marshall and co-authors Rochester Cahan (Deutsche Bank, N.Y.) and Jared Cahan (Macquarie Energy, Houston). This is available at <http://ssrn.com/abstract=1181367>.

Ben Marshall is an associate professor of finance at Massey University in New Zealand. His research has been discussed in *Barron's*, the *CFA Digest*, *Technical Analyst*, *Sydney Morning Herald*, *thestreet.com*, *New Zealand Herald* and *National Business Review*. He has written more than 20 articles for professional and academic journals.