



Improving on Buy and Hold: Buy

By Georg Vrba, P.E.

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I have updated the model described in my article [Improving on Buy and Hold: Asset Allocation using Economic Indicators](#). The ECRI U.S. Weekly Leading Index and its annualized growth rate published on October 22, 2010, together with the most recent values of the other indicators used, have been incorporated in the model.

Figure 2 shows the buy and sell signals obtained from the model for the time period 2007 to 2010. A *type A buy signal* was generated on 10/22/2010.

Figure 3 shows the historic performance over one year of the S&P500 index values after each of the previous 10 Buy signals. The exact signal dates are listed in Appendix C of my article. The S&P500 values are indexed to a base value of 100 at the Buy signal date to provide a common scale for the evaluation of the subsequent performance of the S&P500 index. Figure 4 depicts the upper and lower envelope of the percentage change of the performance from the Buy signal date for all 10 cases. For all cases, the S&P500 index provided a positive return over a one-year period. The lowest return was 9.5% and the highest was 49%. The average return after one year was 26.8%. In nine cases the S&P500 index never dropped below the Buy signal value. In one case (the 1982 Buy signal) the index dropped to -12%, but recovered strongly to provide a 26% return for the year.

The past is not an indicator of the future, but I expect the S&P500 index to be at least 10% higher a year from now.

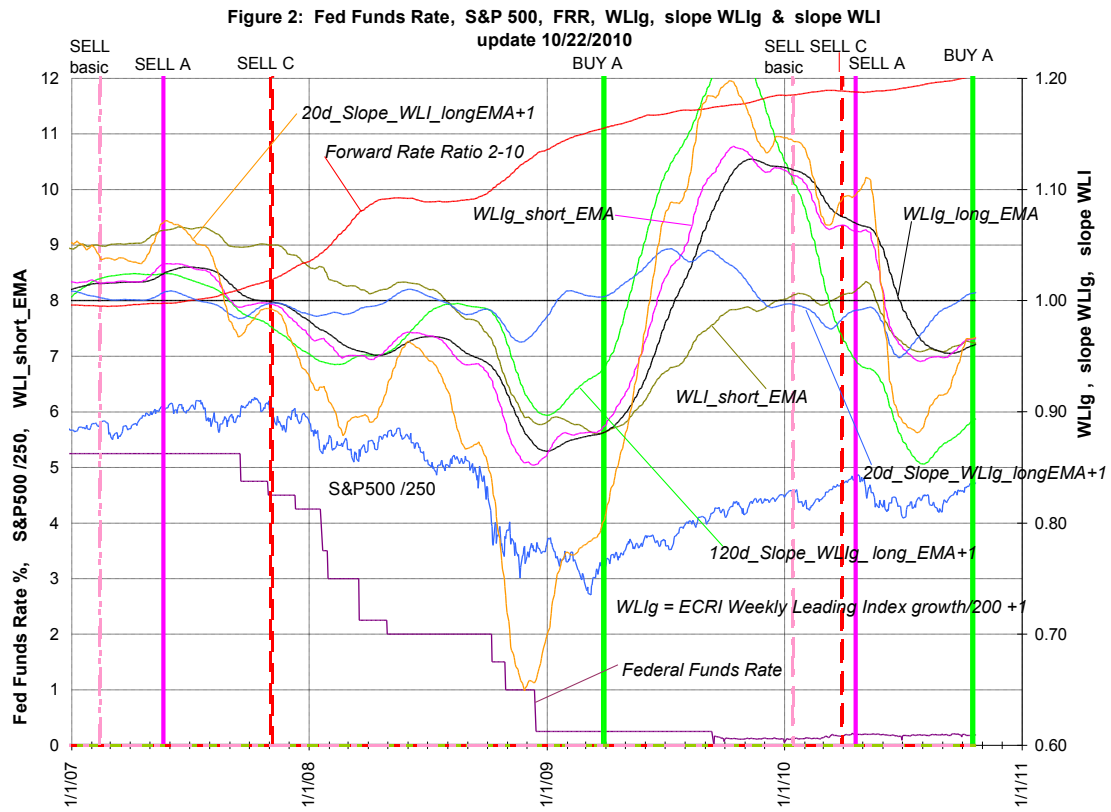


Figure 3: Performance over 1 year of S&P 500 Index after a Buy Signal was generated by the "Improving on Buy and Hold model"

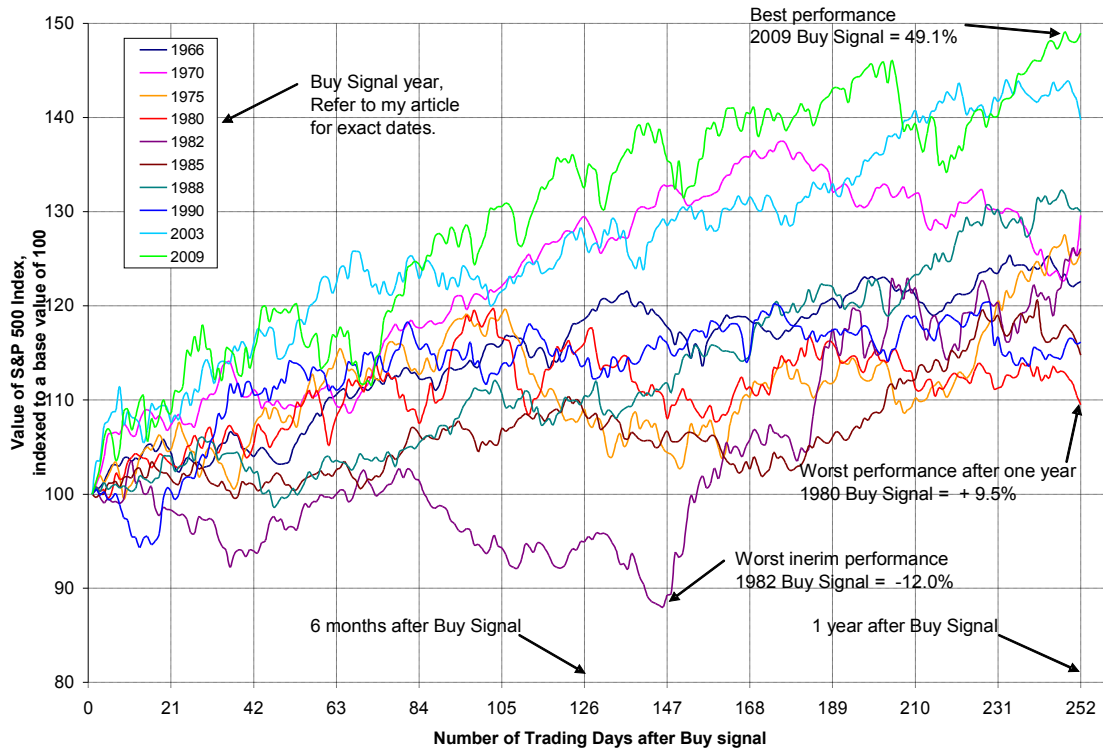
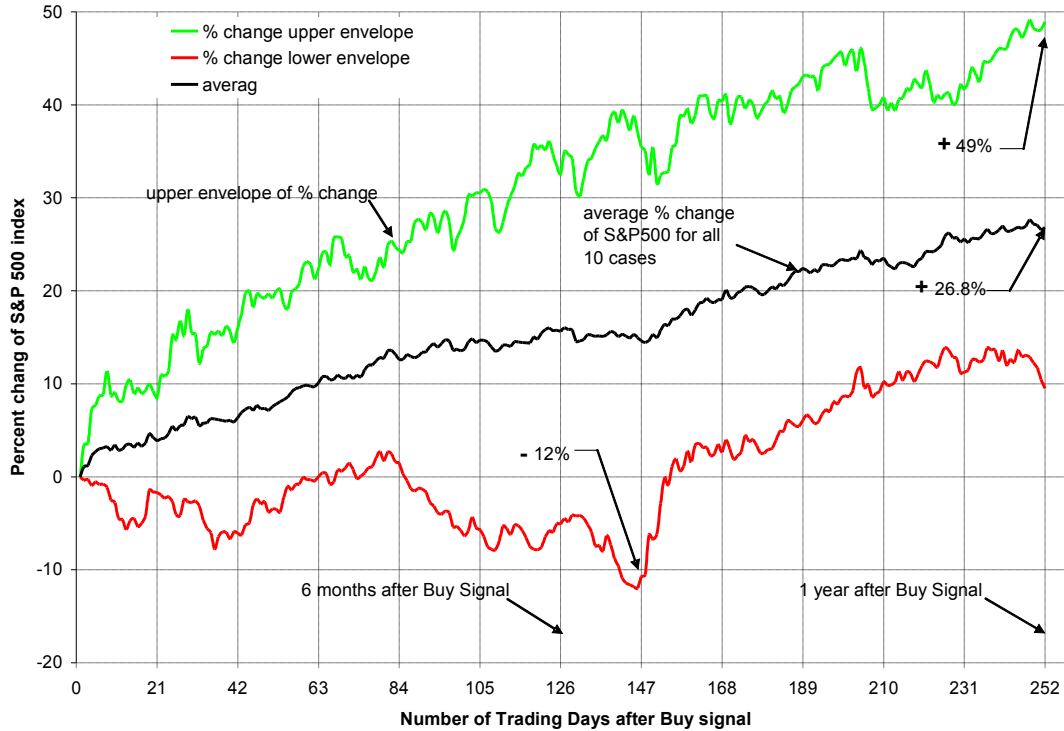


Figure 4: Envelope of percentage change of S&P 500 Index for all 10 cases after a Buy Signal from "Improving on Buy and Hold model" was generated



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