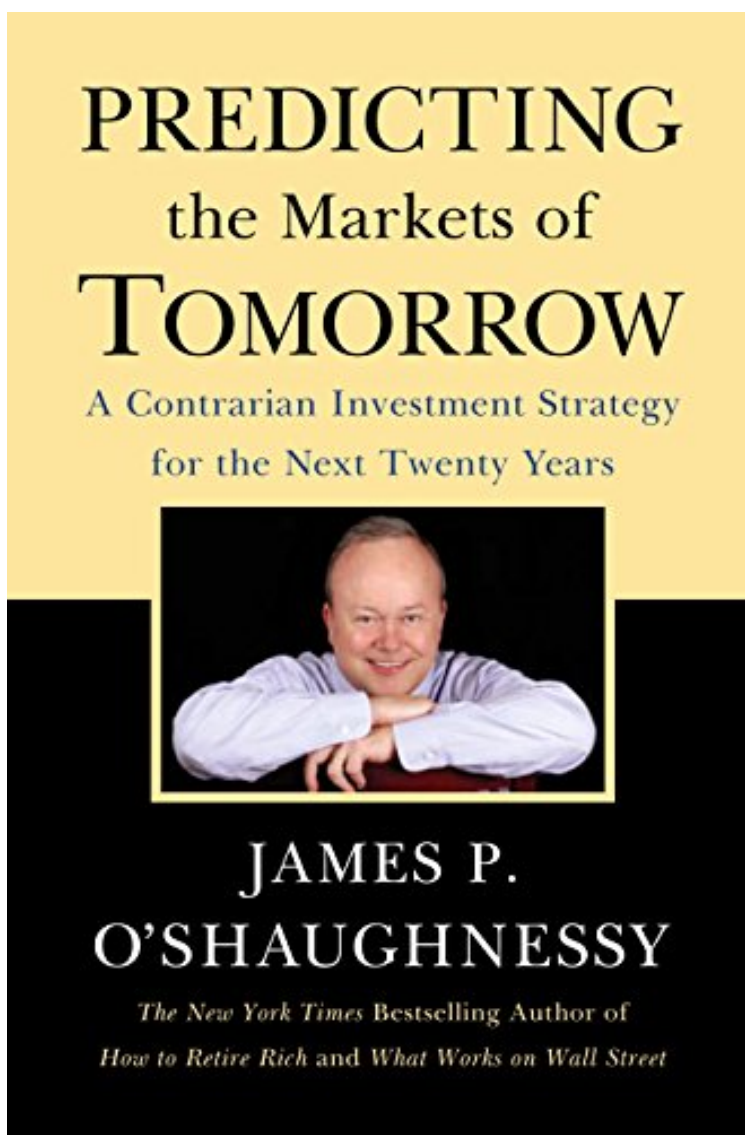


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Predicting the Markets of Tomorrow: A Contrarian Investment Strategy for the Next Twenty Years

James P. O'Shaughnessy

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James P. O'Shaughnessy : Predicting the Markets of Tomorrow: A Contrarian Investment Strategy for the Next Twenty Years before purchasing it in order to gauge whether or not it would be worth my time, and all praised Predicting the Markets of Tomorrow: A Contrarian Investment Strategy for the Next Twenty Years:

0 of 0 people found the following review helpful. Five Stars By david j. blackstone Great book with invaluable investment information from a Wall Street legend. 34 of 35 people found the following review helpful. Reversion to

the MeanBy Leonard J. WilsonIn Predicting the Markets of Tomorrow author James O'Shaughnessy offers his ideas on the investment environment we are likely to encounter over the 20 years from 2006 through 2026. He selected twenty years as this time horizon based on extensive analysis of market behavior over approximately the last 200 years. His logic goes something like this:1. When calculating returns from any investment strategy, it is essential to focus on the real return, after accounting for inflation.2. Approximately two hundred years of stock market data (1809-2004) show that real returns have been highly erratic, especially when analyzed over periods of a few years or less.3. However, when one calculates returns using overlapping periods of 20 years, they become much smoother. Stocks have rarely lost value over a 20 year period.4. There are probably some underlying factors that cause returns to be smoother over 20 years. O'Shaughnessy suggests two. First, many investors don't really get started saving and investing until their mid 40s, giving them about 20 years to accumulate assets before retiring. Second, retirement at 65 together with a life expectancy of 85 suggests retirements (and asset depletion cycles) that last about 20 years.5. If one decomposes the 20 year average returns of the SP into the returns of the growth and the value stocks that comprise the SP, these two groups have tended to move out of cycle with each other. Growth stocks occasionally have produced the higher return, as they did in the 1980s and 1990s. More often, value stocks have outperformed value stocks.6. The returns of these three groups (SP, Growth, and Value) all seem to revert to their mean rates of return. Any group that has outperformed in a 20 year interval is likely to underperform in the next 20 year period.7. Since growth stocks outperformed in the 1980s and 90s, it's now their turn to underperform while value stocks outperform.8. One can also segment the market by the capitalization (the total value of all the shares of a company). This analysis suggests that small cap stocks are likely to outperform large cap stocks over the next 20 years.9. The average 20 year real returns /standard deviations of the key market groups between 1947 and 2004 have been:Large Cap Growth: 6.26% / 3.83%SP 500: 7.30% / 3.76%Large Cap Value: 10.32% / 3.42%Small Cap: 10.42% / 2.94%10. As seen in the figures above, Large Cap Value and Small Cap stocks have higher returns with lower standard deviations. When you add on the fact that these two groups have underperformed over the last 20 years, O'Shaughnessy appears to have a compelling argument for focusing on these two groups. To hedge his bets slightly, he recommends a preferred portfolio allocation of 50% large cap value, 35% small cap growth, and 15% large cap growth.11. Fixed income securities, even inflation protected treasuries (TIPS) are currently producing returns that, at best, break even. They are "Return-free risks, not risk-free returns". Avoid them except as a place to park cash they you will need in the next few years.Reviewer's Comments: I agree with O'Shaughnessy's approach and conclusions but would have liked a better justification for using 20 year average returns. One could argue that generations are separated by about 25 years which might make that figure the logical interval for averaging. Perhaps someone has (or should) compare the results of averaging over different periods such as 10, 15, 20, 25 and 30 years. Or, even better, use a Fast Fourier Transform to determine the power spectral density of each time series.0 of 0 people found the following review helpful. Five StarsBy M. PlathThe best investment advice available.

A unique and timely new wealth-building strategy from a legendary investment guru;In his national bestsellers;How to Retire Rich;and;What Works on Wall Street, portfolio manager extraordinaire James P. O'Shaughnessy offered investors practical advice based on rigorous quantitative analysis;advice that has consistently beaten the market.But in a recent analysis of market data, O'Shaughnessy uncovered some astonishing trends not discussed in his previous books.;The Markets of Tomorrow;explains O'Shaughnessy's new research and tells ordinary investors what they must do now to revamp their portfolios.According to O'Shaughnessy, the year 2000 marked the end of a twenty-year cycle that was dominated by the stocks of larger, faster-growing companies like those in the SP 500. In the new cycle, the stocks of small and midsize companies are the ones that will outperform the market, along with large company value stocks and intermediate term bonds. O'Shaughnessy describes the number crunching behind his analysis and then shows individual investors exactly how to select the right mix of investments and pick top-performing small and midcap stocks.The Markets of Tomorrow;is a loud and clear call to action for every investor who doesn't want to be left behind.

From Publishers WeeklyA Bear Stearns executive and bestselling financial adviser, O'Shaughnessy (How to Retire Rich) is a self-described "passionate advocate" of paying attention to the stock market's historical trends rather than impulsively reacting to short-term fluctuations. Though the technology bubble of the '90s led many to believe the financial rules had changed, O'Shaughnessy still believes that the soundest investment lies not in chasing the fastest-growing big stocks, but in careful management of holdings in small and midsize companies, with large companies selected for value rather than expansion. Buttressed by an array of financial charts, he discusses how to create a set of investment portfolios;some with as many as 25 separate stocks;that with annual tinkering will yield effective results over a two-decade period. His advice tends toward technical precision; when discussing intermediate bonds, for example, he recommends a laddered portfolio that continually frees up assets for potential reinvestment in the event of changing interest rates. Although he speaks briefly to the emotional reasons why most investors are

unable to resist the allure of short-term gains, O'Shaughnessy is primarily concerned with the cold, hard facts that will trump sentiment, and he lays out his positions in a straightforward and effective manner. (Mar. 2.) Copyright copy; Reed Business Information, a division of Reed Elsevier Inc. All rights reserved.From the Back CoverPraise for James P. O'Shaughnessy: "What investment strategies have worked over the past forty years? Ask this man." —Barrons "You ignore his message at the risk of your own future wealth. His trailblazing research suggests new ways to invest." —Kiplinger's Personal Finance MagazineAbout the AuthorJames P. O'Shaughnessy is senior managing director at Bear Stearns and the director of systematic equity for Bear Stearns Asset Management. He manages five mutual funds and separately managed portfolios for individuals and institutions. The author of *How to Retire Rich* and *What Works on Wall Street*, he has been profiled and interviewed widely in the media.