

Tips for Using Academic Research About Investing

✘ There is a constant stream of new academic research about investing. Some of the papers attempt to explain the key drivers of returns. Some are more focused on investor behavior. Many papers are focused on realizing higher returns (“delivering alpha”). For an investor seeking new ideas, these papers can range along a spectrum from being very helpful to being completely useless to being somewhere in between. It depends on the paper and what specifically a person is looking for.

There are many of us who cite this research regularly. Larry Swedroe does so regularly on ETF.com. Jason Zweig often tweets out links to research. It’s also not unusual to see him reference academic research in his Wall Street Journal column, *The Intelligent Investor*. I mention papers in this weekly commentary and in the Briefly Noted section of the *AII Journal*. The three of us are not alone in writing about academic research related to investing.

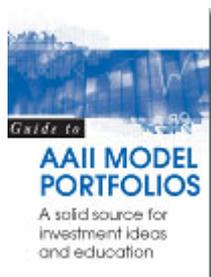


I’ll get to sources in a moment, but first I want to add some cautionary statements. When it comes to drivers of outperformance, such as for selecting stocks, it’s impossible for individual investors to mimic the stated performance in papers. The returns are often presented in some form of good versus bad, where the stocks with the “good” traits are purchased and the stocks with the “bad” traits are shorted. Furthermore, the returns calculated are typically based on a very large number of stocks grouped by deciles (10 groups) or quintiles (5 groups) ranked according to what’s being tested (e.g., lowest to highest valuation.) It’s impossible for individual investors to implement such

strategies. Due to liquidity constraints, it's not easy for institutional investors to do so, either. There is a work-around, though. [Continue Reading »](#)

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**Results as of 4/28/2017.*

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AAII Model Portfolio Update

No changes were made this month to either the [Model Shadow Stock Portfolio](#) or the [Model Fund Portfolio](#). Just two Shadow Stock holdings currently qualify as buys: Salem Media Group ([SALM](#)) and Seneca Foods ([SENEA](#)). Ultra Clean Holdings' ([UCTT](#)) book value was above the 3.0 limit as of the end of April.

This Model Shadow Stock Portfolio posted a 3.7% gain in April on the heels of gaining 3.4% in March. The portfolio continues to buck the trend of small-cap and value-oriented methodologies as the Vanguard Small Cap Index fund ([NAESX](#)) climbed 0.8% for the month and the DFA US Micro Cap fund ([DFSCX](#)) added 1.6% in April. The Model Fund Portfolio added 0.6% in April, compared to a 1.0% monthly gain for the SPDR S&P 500 ETF ([SPY](#)).

More on AAll.com

- [Valuation's Usefulness for Forecasting and Setting Asset Allocation](#) - This article on valuations was based on a paper I found on the SSRN website.
 - [Growth in Cash Balances Isn't Bad](#) - This article was based on a paper made available on the ScienceDirect website.
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Highlights from this month's *AAll Journal*

- [A Dividend Approach to Judging the Value of Stocks](#) - By comparing the dividend yield to its historical average, it's possible to determine whether a stock is over- or undervalued.
 - [The Advantages of Quantitative Approaches to Stock Selection](#) - Those of you who use stock screens will particularly enjoy the insights provided by T. Rowe Price's Sudhir Nanda.
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AAll Sentiment Survey

Optimism about the short-term direction of stock prices fell to a new 2017 low, while neutral sentiment is at a new high for the year. At current levels, bullish sentiment is unusually low and neutral sentiment is unusually high. [More about this week's results.](#)

This week's results:

- Bullish: 23.9%, down 8.9 points
- Neutral: 41.9%, up 4.8 points
- Bearish: 34.3%, up 4.0 points

Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the **Sentiment Survey**.

The Week Ahead

First-quarter earnings season begins to wrap up, with 18 members of the S&P 500 scheduled to report. Among them are eight retailers: Advance Auto Parts (**AAP**), Lowe's (**LOW**) and Tiffany & Co. (**TIF**) on Wednesday; and Best Buy (**BBY**), Costco Wholesale (**COST**), Dollar Tree (**DLTR**), Signet Jewelers (**SIG**) and Ulta Beauty (**ULTA**) on Thursday.

The week's first economic report will be April new home sales, which will be released on Tuesday. Wednesday will feature the May PMI composite flash, April existing home sales and the minutes from the Federal Open Market Committee's policy May meeting. April international trade data will be released on Thursday. Friday will feature April durable goods orders, the first revision to first-quarter GDP and the final University of Michigan's May consumer sentiment survey.

Six Federal Reserve officials will make public appearances: Minneapolis president Neel Kashkari on Monday, Tuesday and Wednesday; Philadelphia president Patrick Harker on Monday and Tuesday; Chicago president Charles Evans on Tuesday; Dallas president Robert Kaplan and St. Louis president James Bullard on Thursday; and San Francisco president John Williams on Sunday.

The Treasury Department will auction \$26 billion of two-year notes on Tuesday, \$13 billion of two-year floating rate notes and \$34 billion of five-year notes on Wednesday and \$28 billion of seven-year notes on Thursday.

Local Chapter Meetings

AII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AII members who share your interest and enthusiasm for investing. You

can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you! [Upcoming Meetings »](#)