HOW NEWSLETTERS STACKED UP OVER THE LAST 20 YEARS

By Mark Hulbert

There is one characteristic that distinguishes the top performers: discipline. They were willing to stick to their strategies during the discouraging interludes in which they were lagging the market or even losing money.

How have investment advisers performed over the very long term?

How many of them have done better than their corresponding benchmarks?

Do certain types of strategies dominate either the top or the bottom of the rankings?

The occasion for asking these questions is the imminent 20-year anniversary of the Hulbert Financial Digest (HFD), which began monitoring the performance of the investment newsletter industry on June 30, 1980. To be sure, because this article is being written prior to June 30, 2000, the performance data reported here cover a period that's slightly less than 20 years. But I'm confident that my conclusions would be no different had I waited the extra few months before writing this column.

TRACKING NEWSLETTERS

The HFD calculates newsletters' performances by constructing hypothetical model portfolios out of each newsletter's advice. Trades are executed at prices prevailing on the day a regular subscriber could have acted, and commissions are deducted using a typical discount brokerage commission schedule. Taxes are not taken into account, however—not because they're not important, but because the HFD has found it nearly impossible to adjust for taxes in a way that's relevant to a wide variety of investors. Regardless of your tax bracket, however, you can safely assume that newsletters' aftertax returns would be lower than their pretax returns, both absolutely and relative to their benchmarks.

20 YEARS—THE RESULTS

Table 1 lists the 19¾ year performances of all newsletters the HFD currently follows that have performance data dating back to June 30, 1980. Notice that just 16 newsletters are in Table 1. This relatively low number reflects several different factors. For example, almost all of the hundreds of other newsletters that are published today were not around in 1980. In addition, many services that did exist in 1980 were subsequently discontinued. Indeed, the HFD has performance data dating back to mid-1980 for an additional 10 newsletters that either are no longer published or have stopped offering trackable investment advice. (This attrition rate, with 38% of newsletters not surviving 20 years, is somewhat lower than for the mutual fund industry.)

Table 2 reports summary statistics for the newsletters that appear in Table 1. In addition, to eliminate the survivorship bias that would exist if we focused only on these 16 newsletters, the Table 2 data incorporates the additional 10 newsletters that the HFD started following in mid-1980 but are no longer tracked. The performances of these additional 10 are compared to the various benchmarks over just the period of time that they were tracked.

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TABLE 1. PERFORMANCE OF INVESTMENT NEWSLETTERS HFD BEGAN MONITORING ON JUNE 30, 1980

				Characteristics of Investment Approach						
Newsletter	Annual Gain thru 3/31/00 (%)	Risk* (%)	Risk-Adjusted Return** (%)	Market Timing Timing	Growth/ Momentum	Value	Technical Analysis	Fund'l Analysis	Long–Term Investor	Short–Term Trader
Value Line Investment Survey	18.0	5.0	0.192	X	X		X	X		X
No-Load Fund X	16.9	4.6	0.190		X		X			X
The Chartist	18.4	5.5	0.184	X	X		X			X
Growth Stock Outlook	11.2	2.2	0.162			X		X	X	
Fabian Premium Investment	13.0	3.6	0.149	X			X			X
The Prudent Speculator	20.0	10.9	0.149			X		X	X	
Dow Theory Forecasts	13.3	4.0	0.144	X		X	X	X	X	
The Outlook	12.0	3.7	0.127	X		X		X	X	
Market Logic	11.4	3.7	0.114	X		X	X	X	X	
Value Line Special Situations	12.6	7.8	0.096	X	X			X	X	
The Dines Letter	6.5	7.9	0.035	X	X	X	X	X		X
Babson-United Investment Report***	6.6	3.9	0.015			X		X	X	
International Harry Schultz Letter	6.3	4.6	0.014	X	X		X	X		X
Growth Fund Guide	6.6	3.6	0.013	X	X	X	X	X	X	
Howard Ruff's Ruff Times	4.9	4.4	–0.011	X	X		X	X		X
The Granville Market Letter	–22.0	25.1	–0.020	X	X		X			X

Benchmarks			
T–Bill Portfolio	6.8	0.2	0.000
Wilshire 5000 Index	17.1	4.3	0.200
Nasdaq OTC Composite	18.6	5.8	0.181
Shearson Lehman Treasury Index	9.5	1.6	0.136
Morgan Stanley Cap Int'l EAFE	15.0	5.0	0.150
Gold Bullion (London P.M. Fixing)	–4.2	4.7	–0.171

Performance through March 31, 2000
**As measured by standard deviation, which indicates the variation of most returns around the average; the higher the standard deviation, the greater the variation in returns and therefore the greater the risk.*
***As measured by the Sharpe Ratio. This is not an actual return, but a measure of return per unit of risk.*
****Babson–United has disputed its HFD rating. For more details, log on to www.hulbertdigest.com/ub.*

Overall, as Table 2 shows, only two newsletters (or 8%) were able to beat the Wilshire 5000 on a risk-adjusted basis. To be sure, the Wilshire 5000 may not be the appropriate benchmark, since many newsletters focus on small caps or international stocks, and still others focus on non-equity asset classes such as bonds and gold. Nevertheless, it's fair to conclude from the data that beating the market, however defined, is a relatively rare phenomenon over the very long term.

If you pick a newsletter at random, therefore, odds are good that you'll perform less well than you would by investing in a corresponding index fund. Of course, one hopes to do better than having mere random luck in picking a newsletter. But your odds of success still won't be great. When an average of just 8% of newsletters beat the market, for example, you can do five times better than average and still have less than even odds of beating the market yourself.

Does the performance of these newsletters imply that you'd be better off using mutual funds? It turns out that mutual funds haven't found it any easier to beat the market than investment newsletters. A similarly small proportion of the mutual funds that were available in 1980 has beaten the market over the subsequent 20 years.

The main conclusion you should draw from the HFD's data is: It's incredibly difficult to beat the stock market over the long term.

RESULT PATTERNS

Let's next turn our attention to any patterns that may exist within the HFD's results. Take a look at those columns in Table 1 that correspond to the various investment approaches used, and see if you can find any patterns among the strategies clustered at the top or bottom

TABLE 2. NEWSLETTERS vs. VARIOUS BENCHMARKS

Newsletters* That Beat the Benchmark on a Risk-Adjusted Basis:

Benchmark	Number	Percent of Total
Wilshire 5000	2	8%
Nasdaq Composite	5	19%
Shearson Treasury Bond	10	38%
MSCI's EAFE Index	3	31%
90-Day T-Bills	20	77%
Gold Bullion	24	92%

**All newsletters tracked by HFD in 1980, including those no longer tracked.*

of the rankings.

I must confess that I can't see any such patterns. No one investment approach appears to dominate. Consider the Prudent Speculator, edited by Al Frank, whose raw, unadjusted return since 1980 beats all others. His approach involves long-term buy-and-hold investing in value stocks. Yet several other letters with similar approaches are ranked much lower. In addition, a similar approach also was pursued by one of the letters on the HFD's original 1980 list that no longer is published, and this now-defunct letter was ranked second from the bottom at the time it was discontinued.

Or consider technical analysis, an approach that investors either tend to love or hate. Notice from Table 1, however, that the top three newsletters on a risk-adjusted basis, as well as the bottom four, are technically oriented. One might also wonder whether the bottom-most performers were guilty of hyperactive trading and, consequently, prohibitively high transaction costs. But only some of the newsletters at the bottom of the rankings traded particularly frequently. In any case, some of the best performers also are frequent traders.

The absence of any immediately apparent pattern among the top or bottom performers has inclined me to conclude that there is no one road to riches—or to ruin. A corollary is that no single strategy works best all the time. Even the soundest of long-term approaches will experience short-term periods along the way in which it is out of sync with the market.

There is one characteristic that I have discovered that does distinguish the top performers: discipline. They were willing to stick to their strategies during the discouraging interludes in which they were lagging the market or even losing money. In fact, I think that the importance of discipline may be the most important lesson to emerge from my 20 years of tracking investment newsletters. It is what keeps us from dumping a good long-term strategy because of short-term underperformance. Without discipline, we are all too likely to dump a strategy at the wrong time—and then compound the problem by jumping on the bandwagon of a winning strategy just at the time it is about to lose its "hot hand."

PICKING A NEWSLETTER

The importance of discipline places a new light on how you should go about picking a newsletter, or any investment strategy, for that matter. The question you should be asking yourself is: Which adviser, among the better performers, will you be able to live with and follow for many years, through thick and thin? That's the one you should follow. You probably should avoid the advisers and funds that are playing a hot hand currently. They may look enticing now, but chances are you won't be comfortable with them for many years. ◆