INVESTMENT NEWSLETTERS ON-LINE: NO REAL PERFORMANCE EDGE

By Mark Hulbert

By providing additional data and screening tools, newsletter Web sites, at least theoretically, empower the individual investor to be a much better investor. But faster communications hasn't translated into a better performance by their stock-picking advice.

This article reviews the content of the Web sites maintained by those newsletters at the top of the Hulbert Financial Digest's (HFD) performance rankings list for five years or more. But first, I want to challenge those of you who have become part of a fast-growing group of investors who dismiss any advisory service that isn't provided over the Web. I'm not convinced that there are good reasons for doing so.

Performance is the primary justification I have heard for an exclusive focus on Web-based advisory services. After all, such services can instantly deliver advice to their subscribers. Newsletters that rely on snail mail seem old-fashioned and ill equipped to deal with modern, whipsawing markets.

But are they really outdated?

The first part of my article focuses on this performance-based justification for favoring Web-based letters. After analyzing what the data show in this regard, I turn to a review of the various features found on the top performers' Web sites.

SNAIL MAIL VS. ELECTRONIC COMMUNICATION

To test whether speed of communication bears any relationship to performance, I retroactively constructed two hypothetical portfolios. One was divided equally among all newsletters that use the Internet to communicate advice to subscribers, while the other invested in those that do not. To accommodate situations in which editors switched in recent years away from an exclusive reliance on snail mail, I credited such letters' performances before their switch to the second portfolio and their gains after their switch to the first portfolio.

In order for my backtesting to encompass more than just the last few years in which newsletters have come to rely heavily on the Internet, I also included in the first portfolio those letters that have used any electronic means for communicating quickly with subscribers—such as telephone hotlines and faxes. By doing so, I was able to extend my backtesting to mid-1980, which is when the HFD began monitoring the newsletter industry.

Figure 1 compares the yearly performances of these two portfolios. No overall pattern emerges, with electronic newsletters coming out on top in just about half of the years. The 20-year annual return of the portfolio that invested in such letters was 11.0%, in contrast to 10.6% for the portfolio that invested in snail-mail newsletters. This difference of 0.4 percentage points annually is not statistically significant.

Why do newsletters find it so difficult to exploit in practice the theoretical advantages of quicker communication? My hunch is that it has something to do with a tendency we all have to become more risk- averse as our perspective becomes shorter term—a tendency called "myopic risk aversion" by professors Richard Thaler of the University of Chicago and Shlomo Benartzi of UCLA. For example, investors who are restricted from changing their asset

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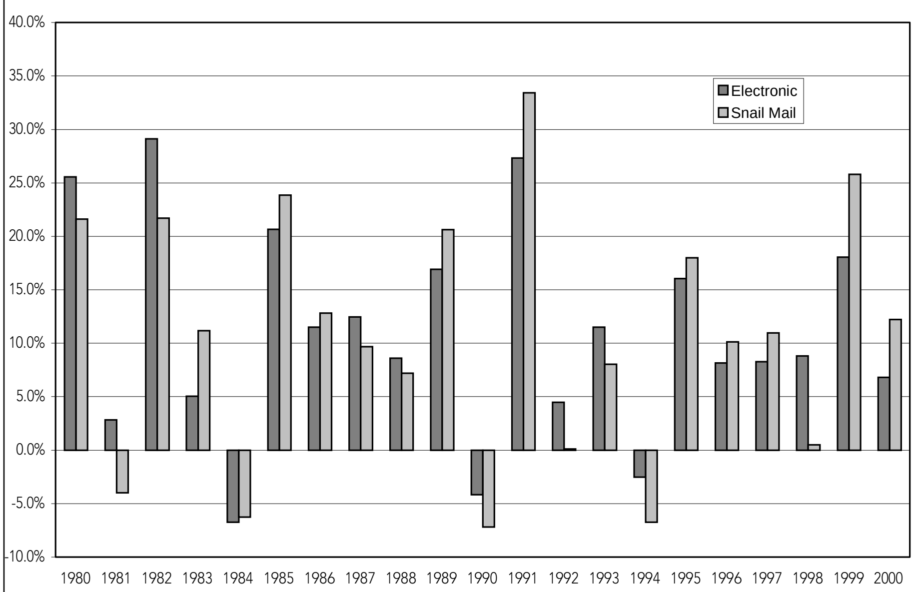
FIGURE 1. PERFORMANCE OF PORTFOLIOS OF NEWSLETTERS COMMUNICATING ADVICE ELECTRONICALLY VS. SNAIL MAIL



Source: Hulbert Financial Digest

allocation very often tend to be more heavily invested in stocks than those who can alter it frequently. Consistent with this explanation is the fact that electronic newsletters came out on top during the 1981–82 bear market and the 1987 crash, just as the snail-mail portfolio on balance did better during the very bullish years of the 1990s.

NEWSLETTER WEB SITES

The lesson to draw from Figure 1 is that you shouldn't automatically dismiss a newsletter just because it isn't on the Web. Nor should you automatically favor a letter because it is.

Nevertheless, there may be other content on an investment Web site that justifies subscribing. With that in mind, I constructed Table 1, which summarizes the Web site content of each of the newsletters that, as of mid-2000, were ranked by the HFD in the top five for performance over either the last five-, 10-, 15- or 20-year periods.

Several overall patterns emerge. First, as you can see, almost all of these newsletters now have their own Web sites. This represents a big shift from as recently as a year or two ago, when having a Web site was still a relatively rare phenomenon. Secondly, almost as many of these newsletters' Web sites allow subscribers to download issues of their newsletters and/or their latest between-issue updates.

Thirdly, however, very few of these newsletters' Web sites provide much in the way of content other than what is contained in the print versions of these newsletters. That is, the only conceivable benefit of these Web sites in their current incarnation is speed of delivery—which, as we saw above, is of dubious value.

Since so few of these top-performing letters' Web sites provide additional content, it's worth drawing attention to each one of them in turn.

One of the more intriguing research tools is something provided on the Dow Theory Forecasts Web site, referred to as the "Quadrix Screening Tool." This tool allows subscribers to custom-screen a database of thousands of stocks according to up to five variables. The user chooses these variables from a list of over 70, ranging from value-oriented criteria such as price-earnings ratio and price-to-book ratio to momentum criteria such as relative strength defined over the previous one-, three- or six-month periods.

Another useful feature found on several sites are links to other relevant sites, which are available to subscribers and non-subscribers alike. For example, the *NoLoad Fund*X Web site provides a directory of links to a large number of fund families, while the Medical Technology Stock Letter site provides links that would be of interest to an investor interested in biotech investing.

Another way in which some of these newsletters provide additional content is through partnerships with other Web sites. The Oberweis Report's Web site is closely integrated with that of Zacks Investment Research (www.zacks.com), enabling an Oberweis subscriber to click through to get a Zacks research report on virtually any stock.

A few newsletter Web sites also provide current price quotes, or allow subscribers to set up custom portfolios that can be monitored on an on-going basis. Among the top performers listed in Table 1, the Oberweis Report provides the former service and John Dessauer's Investors World provides both. I note in this regard that the Maverick Advisor Web site indicates that subscribers will soon be able to sign up to receive news-related alerts about any stock or mutual fund via E-mail, pager or mobile phone.

A final word is in order for the Web site of the Value Line Investment Survey, the letter that is in first place for 20-year risk-adjusted performance among all the newsletters that the HFD has followed from mid-1980 to mid-2000. In a narrow sense you are able to do research at the Value Line Web site, since you can download a PDF version of their latest issue containing the current Value Line rank of 1,700 widely followed stocks. However, you are unable to do any screening at this site. To do that, you need to subscribe to another Value Line soft-

TABLE 1.
WEB SITES OF NEWSLETTERS RANKED AMONG THE TOP FIVE OVER THE LAST FIVE-, 10-, 15-, OR 20-YEAR PERIODS

				Additional Research Tools		
Phone Number	Newsletter	Advertisement/ Order Form	Download Newsletter	Free	Fee	Web Site
800/299-4223	All Star Fund Trader	✓				www.allstarinvestor.com
562/596-2385	The Chartist	✓	✓			www.thechartist.com
562/596-2385	The Chartist Mutual Fund Letter	✓	✓			www.thechartist.com
801/373-3381	Dennis Slothower's On The Money	✓	✓			www.onthemoney.com
219/931-6480	Dow Theory Forecasts	✓	✓		✓	www.dowtheory.com
800/982-0055	Equity Fund Outlook	✓	✓			www.efoutlook.com
800/397-3094	Fidelity Monitor	✓	✓			www.fidelitymonitor.com
516/829-6444	Gerald Appel's Systems and Forecasts	✓	✓			www.signalert.com
800/777-5005	Independent Adviser for Vanguard Investors	✓	✓			www.adviseronline.com
800/804-0942	John Dessauer's Investor's World	✓	✓		✓	www.dessauerinvestorsworld.com
800/454-1395	MPT Review	✓	✓			www.mptreview.com
800/950-8765	Maverick Advisor	✓	✓	✓	✓	www.fabian.com
510/843-1857	Medical Technology Stock Letter	✓	✓		✓	www.bioinvest.com
800/763-8639	*NoLoad Fund*X	✓	✓	✓		www.fundx.com
800/776-9555	No-Load Fund Analyst	✓	✓			www.nlfa.com
800/252-2042	The No-Load Fund Investor	✓				www.sheldonjacobs.com
800/800-6563	No-Load Mutual Fund Selections & Timing Newsletter					
800/955-9566	OTC Insight	✓	✓	✓		www.icrm.com
800/323-6166	The Oberweis Report	✓	✓		✓	www.oberweis.net
425/836-4744	Prudence & Performance	✓	✓			www.towerview.com
949/497-7657	The Prudent Speculator	✓				www.theprudentspeculator.com
847/945-4700	The Pure Fundamentalist	✓	✓			www.thepurefundamentalist.com
203/629-3503	Timer Digest	✓	✓			www.timerdigest.com
800/634-3583	The Value Line Investment Survey	✓	✓		✓	www.valueline.com
800/832-2330	Wall Street Winners	✓	✓			www.wallstreetwinners.net

Source: Hulbert Financial Digest

ware product that is only available in CD form.

Please note that several other investment newsletters maintain Web sites that, even though their performances don't place them in the top five for performance over the last five years or longer, are nevertheless valuable as research tools. One of them is the Zacks Web site, mentioned above. Another is the one maintained by Morningstar (www.morningstar.com), which contains an enormous amount of data and screening tools for both mutual funds and individual stocks.

BOTTOM LINE

By providing additional data and powerful screening tools, these Web sites, at least theoretically, empower the individual investor to be a much better investor. But don't make the mistake of thinking that the phenomenon of the Web means that the old rules don't apply. As the HFD's data so powerfully illustrate, Web or no Web, the key to picking an adviser is a good long-term record. ◆