The two newsletters that beat the market over the last 17 years on a risk-adjusted basis are cautious on the market.

The Past 17 Years and What They May Reveal About the Future

By Mark Hulbert

In three more months the Hulbert Financial Digest (HFD) will have completed 17 years of tracking the performance of investment newsletters. This article gives an advance look at how the rankings are likely to appear then and reviews the market outlook of those with the best records.

The performances for all newsletters tracked by the Hulbert Financial Digest for the last 17 years appear in Table 1, ranked by their risk-adjusted ratings. (HFD currently tracks 160 newsletters, but only 18 have 17-year track records). The figures represent the gains or losses of hypothetical model portfolios set up in accordance with each newsletter's advice. In the event a newsletter recommends a model portfolio, then the HFD's hypothetical portfolio will look just like it. If not, then the HFD constructs one that is fully invested and divided equally among the newsletter's most highly recommended securities. All transactions take place at the prices prevailing on the days when subscribers actually can act on the newsletters' advice (as opposed to the prices prevailing when the newsletters' editors say they first thought about their recommendations in their offices). Commissions are debited in an amount equal to the average rate at the nation's largest discount brokers on typically-sized transactions. Taxes are not taken into account. (More information on the methodology can be received by sending a self-addressed stamped envelope to the Hulbert Financial Digest at the address below.)

Overall Results

The most overwhelming conclusion to emerge from Table 1 is how difficult it is to beat the market over time. Notice that on an unadjusted basis, just three newsletters beat the 15.3% annualized total return of the Wilshire 5000 index, out of 18 for which continuous performance data exist in the HFD's database. Of course, 18 newsletters don't constitute a large enough database with which to draw confident conclusions. But this 1-out-of-6 ratio for beating the market is similar to the proportion of equity mutual funds and pension funds that are able to beat the market.

To be sure, the majority of the newsletters' portfolios were less volatile, and thus less risky, than the market, so some underperformance is to be expected in a period as bullish as the last 17 years. But notice also that the three newsletters that beat the market on an unadjusted basis were also riskier than the market. *After* adjusting performance for risk, two of these three newsletters lag the market. And only one of the newsletters that lagged the market on an unadjusted basis beats it after adjusting for risk. So, the overall picture on a risk-adjusted basis—with only two of the 18 newsletters beating the market—is even bleaker than that painted by the unadjusted numbers.

There are at least two major reasons to pay attention to the risk-adjusted rankings. First, the risk-adjusted rankings show you whether you could have done better than any given newsletter by leveraging an index fund to match that newsletter's risk level. If you could, then you know that the newsletter's above-average performance was simply due to greater risk.

As an example, take the Prudent Speculator, edited by Al Frank, which is in first place on an unadjusted basis over these 17 years with a return that is 4.4% per year ahead of the market. But this newsletter's portfolio also was 2.52 times riskier than the market. It turns out that you could have done even better than this by investing in a market portfolio on 152% margin. This fact is reflected in the risk-adjusted column for the Prudent Speculator, which has a rating of 87, (with 100 equaling the Wilshire 5000).

The second reason to pay attention to risk: Newsletters that beat the market only through excessive risk are prime candidates to lose a lot whenever the market declines.

Once again the Prudent Speculator provides a good example. During the

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Table 1.
Long-Term Investment Newsletter Performance: June 30, 1980 through March 31, 1997
(In order of risk-adjusted performance)

Newsletter	Contact	Average Annual Return (%)	Risk Level Wilshire = 100	Risk-Adjusted Rating Wilshire = 100
The Value Line Investment Survey	800/833-0046	17.7	125	105
Growth Stock Outlook	301/654-5205	12.2	56	103
Wilshire 5000 Value-Weighted Total Return Index		**15.3**	**100**	**100**
The Chartist	310/596-2385	15.8	127	87
The Prudent Speculator	714/497-7657	19.7	252	87
**NoLoad Fund*X	415/986-7979	13.6	99	82
Fabian Premium Investment Resource	800/950-8765	11.8	82	70
Market Logic	800/442-9000	11.7	91	65
Dow Theory Forecasts	219/931-6480	11.7	95	64
The Outlook	800/852-1641	11.4	88	62
The Value Line OTC Special Situations Service	800/634-3583	13.4	189	59
Growth Fund Guide	605/341-1971	9.9	85	45
Kinsman's Stock Pattern Recognition Service	707/935-6504	7.2	42	7
The International Harry Schultz Letter	32/16-5336-84	6.7	92	6
T-Bill Portfolio		**7.2**	**6**	**0**
The Dines Letter	P.O. Box 22, Belvedere, CA 94920	2.9	161	–11
United & Babson Investment Report	617/235-0900	5.0	92	–14
The Ruff Times	801/489-8681	4.1	112	–16
The Granville Market Letter	816/474-5353	–28.8	625	–24
The Professional Tape Reader	P.O. Box 2407, Hollywood, FL 33022	1.7	64	–89

Source: The Hulbert Financial Digest

crash of 1987, for example, the letter's model portfolio dropped nearly 60%, in contrast to the market's 20%.

What the Top Performers Are Forecasting Now

As I write this, the stock market has dodged yet another bullet. The late-March/early-April correction stopped just short of a 10% decline, and the market roared back in subsequent weeks to new highs. What are the two market-beating newsletters forecasting that the market will do from here?

In first place on a risk-adjusted basis is the Value Line Investment Survey. This service currently is recommending a 50% allocation to stocks, reserving 50% in cash. This is the most bearish that the service has been since 1988, when it began to offer specific stocks vs. cash allocation advice.

One perspective on Value Line's intermediate-term outlook is provided by its analysts' projections of where their stocks will trade in three to five years. Value Line each week publishes the median projection among all 1,700 stocks in the Value Line universe, and the latest reading is 55%. To find a lower reading than this we have to go back to before the 1987 crash.

A 55% market appreciation over three to five years may not look all that bearish, but there's less here than meets the eye. It turns out that at least two different studies have discovered that Value Line's analysts (as well as all of Wall Street's analysts, for that matter) are too bullish. Those studies have therefore concluded that Value Line's median appreciation potential needs to be adjusted downward, and that once this is done, their projection would be well-correlated with the market in four years' time.

How much of a downward revision is needed? The studies I've seen suggest subtracting anywhere between 50% and 70%. If that is done, Value Line's analysts would be implicitly projecting that the market in four years will not be appreciably higher than today.

The newsletter in second place for risk-adjusted performance is Growth Stock Outlook, edited by Charles Allmon. This newsletter is also quite bearish, with just 20% of its model portfolio invested in stocks and 80% in cash. To be sure, Allmon has been quite bearish for a decade, so his current bearishness is nothing new. But Allmon shows no signs of throwing in the towel on his convictions, and in the wake of the market's surge to new highs he is, if anything, even more of a bear than ever.

This isn't to say that all the above-average newsletters are bearish. In fact, the letters in third and fourth place are as bullish as the top two services are bearish. The Chartist, edited by Dan Sullivan, is 200% long in its model portfolio, and the Prudent Speculator's model portfolio is approximately 180% long.

Other than being paralyzed, what can you do with such divergent forecasts?

The only insight a performance monitor such as myself can offer is to differentiate between them by performance. And the only two newsletters to have beaten the market over the last 17 years on a risk-adjusted basis are cautious on the U.S. stock market, if not outright bearish.