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# The performance of professional market timers: daily evidence from executed strategies[☆]

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**Abstract**

We examine the performance of 30 professional market timers during 1986–1994. Prior studies have analyzed implicit recommendations from mutual fund returns or explicit recommendations from newsletters. We analyze explicit recommendations executed in customer accounts. Using four tests, three benchmark portfolios, and daily data, we find significant unconditional and conditional ability that is robust with respect to transaction costs and survivorship bias. Relative ability persists and varies with the frequency of recommendation changes. When recommendations of successful timers are observed monthly instead of daily, significant ability generally disappears. Hence, the

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frequency with which recommendations are observed can change inferences regarding ability. 

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## 1. Introduction

This paper investigates the performance of 30 professional market timers during 1986–1994. A notable feature of this analysis is its relatively unique data. Previous studies typically have used implicit recommendations estimated from mutual fund returns or explicit recommendations obtained from investment newsletters. This study uses explicit recommendations executed in customer accounts. These timers have limited power of attorney, indicating that their clients trust their ability. They disclose their recommendations voluntarily, suggesting self-confidence in their performance. If any timers possess significant ability, the timers studied here are likely candidates.

We use four tests to analyze performance on a daily basis: mean-variance tests, unconditional and conditional Cumby and Modest (1987) regression tests, and Graham and Harvey (1996) weight change tests. Each test uses benchmark portfolios that correspond to Nasdaq, NYSE/Amex/Nasdaq, and the Standard & Poor's (S&P) 500.

We find evidence of significant ability across all tests and portfolios. This evidence is robust with respect to transaction costs and survivorship bias. We also find that relative performance persists and varies with the frequency at which a timer changes recommendations. For comparison purposes, we examine a consensus timer, whose recommendations reflect forecasts based on all 30 timers, and a statistical timer, whose recommendations reflect forecasts based on standard macroeconomic variables. The consensus timer demonstrates both unconditional and conditional ability. Because the statistical timer forecasts based on conditioning variables, we expect it to show only unconditional ability, and that is the case. Finally, we obtain an interesting new result involving the frequency with which recommendations are observed. When we reconsider our most successful timers, but update their recommendations monthly instead of daily as done originally, we find that their significant ability vanishes. Thus, inferences regarding timing ability can vary dramatically depending on how frequently recommendations are observed.

The paper proceeds as follows. Section 2 discusses prior research and methodological issues. Section 3 describes the data, and Section 4 presents initial results from various market timing tests. Section 5 examines timing ability in more detail, exploring topics such as consensus and statistical