

WWZ Research Seminar

Tuesday, October 8, 2019, 12:30pm, S 15, HG

Prof. Dr. Thorsten Hens, University of Zurich

"Escaping the backtesting illusion"

ABSTRACT

Two tests can help asset managers to develop more robust investment strategies: an impact test and a survival test. Both tests complement the backtest where one checks how a proposed investment strategy would have performed in the past. The impact test considers the performance of the strategy when assets under management grow (crowdedness) and it checks the impact that a growth of asset under management in competing strategies have on the proposed strategy (cross impact). The survival test considers the effect of the long-term evolution of assets under management in competition for market capital. Using Shiller's S&P 500 index and bond market data we show that time-series momentum (relative strength) performs best in the backtest and in the impact test but that an expected relative cash-flow rule (relative dividend yield) has the best long-term survival properties.