DRIVING SUCCESS IN A LOW-RETURN WORLD

Jeremy Schwartz — Global Chief Investment Officer
01/15/2019

On last week's "Behind the Markets" podcast, we spoke with Michael Oyster, the former chief investment officer for a large institutional consultant, FEG Group, out of Cincinnati. Just recently, Oyster released a new book, *Success in a Low-Return World: Using Risk Management and Behavioral Finance to Achieve Market Outperformance.*

Oyster believes the U.S. equity markets are in a transitional period, and he thought it would be helpful to give people some background on how to navigate a low-return world.

One indicator Oyster uses and explains in the book is how the CAPE ratio implies lower forward-looking returns. Professor Jeremy Siegel has published a lot about his own views on the CAPE ratio, and we had a podcast on this topic with Bob Shiller and Professor Siegel, recorded at the Wharton Jacobs Levy Quant conference last year.

Oyster referenced Siegel's comment that 98% of the time since 1981 stock market returns have exceeded returns implied by CAPE ratio models. This raises good questions about why professionals would use a CAPE ratio model in market forecasts. Oyster says 1981 also coincided with the peak in interest rates and over the next 32 years, interest rates declined to their bottom in 2013. This was a big tailwind for the market that is unlikely to be repeated and could explain why CAPE models were too pessimistic.

Oyster's big-picture view is that the next decade's returns might range from 5% to 7%.

How much should stocks beat inflation?

- Oyster explained that from January 1928 to September 1981, stocks returned 7.8% and beat inflation by 4.6% per year—an appropriate level, in Oyster's view.
- From September 1981 (when interest rates peaked) to June 2018, stocks returned 11.8% and beat inflation by over 9% per year. That does not appear sustainable.

Oyster's book covers a wide variety of topics, including smart beta and index strategies one should pursue in a low-return world. He spent some time looking at covered call writing indexes and put writing indexes and discussed how these strategies performed particularly well in years when the markets returned less than 10% a year. Given his subdued outlook for the markets, these are the types of investment strategies that Oyster thinks will be useful over the coming years.

Please listen to our full conversation with Michael Oyster below.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Cyclically Adjusted Price to Earnings (CAPE) Ratio : a valuation measure of the S&P 500 Index that is adjusted for inflation and takes into account cyclical fluctuations in market earnings relative to longer term averages.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Inflation : Characterized by rising price levels.

Smart Beta : A term for rules-based investment strategies that don't use conventional market-cap weightings.