
DRIVING SUCCESS IN A LOW-RETURN WORLD

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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.

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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.