The Simple Moving Average Management Strategy

The author compares several different asset management strategies, head to head.

By **Mark Whitelaw** | June 12, 2019

Life insurance and other financial services sectors have some math in common.

(Related: The Life Insurance-Other Financial Services Sectors Communications Gap (https://www.thinkadvisor.com/2019/02/27/the-life-insurance-other-financial-services-sectors-communications-gap/))

Here's a look at an investment and emotion risk management strategy from the financial services side, expressed in a manner consistent with how the life insurance sector works.

3-Month Moving Average v. 3 Alternatives

	1-Month	3-Month	1-Year	3-Year	5-Year	10-Year	15-Year
3-Month (60 day) Moving Average	4.05%	9.48%	15.00%	13.73%	7.91%	10.84%	9.00%
Unmanaged S&P 500 TR	4.05%	9.48%	13.49%	14.87%	11.63%	15.32%	8.97%
Vanguard VBMFX	0.05%	1.95%	5.26%	1.70%	2.37%	3.54%	3.97%
Indexed 1-Year Point to Point	0.00%	0.00%	10.00%	10.00%	7.92%	8.19%	7.05%

This chart is hypothetical only and not indicative of any particular investment or performance. The S&P 500 is an index of 500 stocks on listed exchanges. An investor cannot directly invest in the S&P 500 index.

(Chart: Mark Whitelaw/Winged Foot Partners)

Negative Return Risk

Indexed accounts have become popular because they address the emotional and financial consequences of a negative return, by setting a 0% floor.

In the financial services sector, negative return risk is addressed using the Simple Moving Average management strategy.

Let's compare modeled historical returns for three types of strategies.

1. **Indexed Account:** A modeled 1-year S&P 500 point-to-point with a 0% floor and 10% cap.
2. **Unmanaged S&P 500 Total Return Index (S&P 500 TR) Fund:** A fictitious fund with returns equal to returns from the S&P 500 TR Index.
3. **3-Month (60-Day) Moving Average:** The modeled 1-year returns from using the Simple Moving Average calculation as a crossover between being invested in the fictitious S&P 500 TR fund or earning the Vanguard Total Bond Market Index Fund (VBMFX) gross return.

The Moving Average End-of-Month Calculation and Allocation Rules:

- If the S&P 500 TR share price is *greater* than the moving average – Allocate assets to the S&P 500 TR fund.
- If the S&P 500 TR share price is *less* than the moving average – Allocate assets to the Vanguard Total Bond Market Index fund.

The Chart

In the chart above, I compare the results, as of April 30, for the end-of-month S&P 500 TR share price, versus the moving average of the last three end-of-month share prices (60-day period), versus the indexed account with a 10% cap.

Both the 10-year return and the 15-year return were higher for the 3-month moving strategy than for the indexed account.

The Worst Years

Note that, during the last 10 years the worst 1-year returns were:

- **3-Month Moving Average:** -10.93%.
- **Unmanaged S&P 500 TR Fund:** -32.57%.
- **VBMFX Bond Fund:** -2.76%.
- **Indexed Account:**00%.

The Takeaway

Indexed accounts may be a passive method of risk management.

Simple Moving Average may achieve similar objectives in a semi-active manner for separate accounts offered in a variable insurance product.

The life insurance-financial services sector communication gap is a two-way street. Both sectors offer consumers options to address their protection and accumulation needs within the Internal Revenue Code Section 7702 pricing and tax structure.

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