Investing in the Modern Age

Rachel E. S. Ziemba
Roubini Global Economics, UK

William T. Ziemba
University of British Columbia, Canada
## Contents

Acknowledgements vii
Preface xiii

### I Key Concepts 1

1. Arbitrage, Risk Arbitrage and the Favorite-longshot Bias 3
2. The Bond Stock Earnings Yield Differential Model 13
3. Investor Camps 25

### II Hedge Funds, Sovereign Wealth Funds and Other Investment Agglomerations 33

4. Average Hedge Funds and their Evaluation 35
5. Incentives and Risk Taking in Hedge Funds 45
6. Evaluating Superior Hedge Funds 55
7. Investment in Own-Company Stock 75
8. Cutting Through the Hype on Sovereign Wealth Funds 85
9. A New Age for Liquidity 95
11. Update on Yale’s Approach to Endowment Investing 113
13. Kelly Capital Growth Investing 127
14. InnoALM, the Innovest Austrian Pension Fund Financial Planning Model 149
III  Seasonal Effects and Other Anomalies

15. Investing in the January Turn-of-the-Year Effect with Index Futures 171
16. The January Barometer 191
17. Sell in May and Go Away and the Effect of the Fed 205
18. 60-40 Pension Fund Mixes and Presidential Party Effects 213

IV  Volatility, Correlation and Liquidity

19. Thoughts on the VIX Fear Index 229
20. Changing Correlations: Rising VIX and Violent Market Moves 239

V  Can We Predict Stock Market Crashes?

22. Three Mini Crashes in US and World Equity Markets 289
26. How to Lose Money in Derivatives and Examples of Those Who Did 337

VI  Bubbles and Debt

28. Bubbles 379
29. China: Navigating the Olympic Risks 387
30. Turkey’s Juggling Act: Can it Live up to Potential? 395
31. Testing Resiliency: Protest and Natural Disasters 405
32. It’s a Gas, Gas, Gas! 411
33. Thoughts on the Current Market Environment, Risks and Returns 419
34. What’s Wrong with the US? 433
35. Investing Around the World 449
<table>
<thead>
<tr>
<th></th>
<th>VII Investing and Arbitrage in NFL Football and Horse Racing</th>
<th>463</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Blunder or Correct Decision? The Belichick Decision to go for it on 4th Down</td>
<td>465</td>
</tr>
<tr>
<td>37</td>
<td>The 2010 and 2011 Super Bowls and the Elo Ranking System</td>
<td>471</td>
</tr>
<tr>
<td>38</td>
<td>Risk Arbitrage in the NFL 2012 Playoffs and the Super Bowl</td>
<td>483</td>
</tr>
<tr>
<td>39</td>
<td>The One That Got Away: The Hitable $2 Million Pick 6 at the Breeders’ Cup</td>
<td>493</td>
</tr>
<tr>
<td>40</td>
<td>Two Super Horses</td>
<td>499</td>
</tr>
<tr>
<td>41</td>
<td>Farewell to the Queen and to the Princess of US Thoroughbred Racing</td>
<td>507</td>
</tr>
<tr>
<td>42</td>
<td>The Dr. Z Place and Show Racetrack Betting Systems Past and Present</td>
<td>515</td>
</tr>
</tbody>
</table>

Bibliography

About the Authors

Index