Arch Crawford's lucky stars

Arch Crawford:

Highest return for most overlapping 5-year periods from January 1991 to June 1998 on a risk-adjusted basis.

BY MARK HULBERT

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ARCH CRAWFORD'S *Crawford Perspectives* is one of the top-performing letters over the last five years. This fact is a bit hard for your typical investment professional to accept. Crawford spends as much time gazing at the stars as he does perusing balance sheets. Besides looking at a number of conventional market indicators, Crawford bases his market timing on—don't snicker—astrology.

Yet there is no getting away from Crawford's excellent performance. He is one of just a handful of stock market timers who has beaten a buy-and-hold strategy over these last five years. This is a difficult feat during any period and doubly so when the market is as bullish as it has been since 1990.

Here's what the *Hulbert Financial Digest* letter monitoring service reports: From mid-1990 through mid-1995, a portfolio that shifted between the Wilshire 5000 index and cash on Crawford's signals gained 83.6%. A buy-and-hold strategy, in contrast, gained 78.7%. Crawford turned in this market-beating performance with 12% less risk than the market—meaning that on a risk-adjusted basis he beat a buy-and-hold by even more.

This raises a difficult question, but one that is important to every investor: Should you focus only on the results investment advisers have achieved? Or should you choose advisers whose methods and philosophies appeal to your view of how markets ought to work?

My 15 years of monitoring the investment letter industry inclines me toward the former view. As a former academic philosopher, I believe that the scientific method itself requires us to be ruthlessly pragmatic when judging an adviser. That means focusing above all else on performance. Excluding an adviser because his methods are not "respectable" is fraught with peril. I wouldn't be surprised if more money were lost following the respectable investment course than by chasing fads. Think of how badly conservative portfolios were hurt during the 1987-92 stages of this bull market by people who did the respectable thing and held lots of IBM in their portfolios.

Performance is what counts; which is why Crawford's letter deserves to be taken seriously, whatever you may think of astrology.

There long has been a thriving astrological subculture within the investment world, rife with internal squabbles about who is the purest astrologer. Crawford turns out not to be the purest, since he mixes conventional astrological analysis with a focus on astrophysical events, such as volcanoes and eclipses of the sun and moon. Crawford doesn't believe that such phenomena always tell you where the market is going, but he does believe they often presage significant market turning points. He also leans heavily on another discipline that used to be regarded on Wall Street as being no better than astrology: technical analysis.

Am I saying you should forget about economic and fundamental financial analysis? No. Consider the record of another letter that—at least outwardly—seems similar to Crawford's: *Harmonic Research,* edited by Mason Sexton. In addition to conventional technical analysis, Sexton focuses on "the eclipse cycle and harmonics of the solar year." Unfortunately, these eclipses have not done well for Sexton. He underperformed the market by a significant margin; over the 5½ years the HFD followed Sexton, his futures portfolio lost more than 85%. In mid-1993 he discontinued his letter in favor of an institutional product.

No. I am not festooning my office wall with

You don't have to believe in astrology to be impressed by Arch Crawford's long-term record of successfully calling the market.

astrological charts or staying up late nights with the work of Nostradamus. I am only saying that results are what count and, since results are what Arch Crawford has produced, I will take him seriously—whatever I may think of astrology.

What does Crawford think about the market now? Unlike many other top-performing market letters he is bullish—a position he has maintained since last December. He thinks there still is plenty of upside potential left for this current rally. What would convince him that he's wrong? His stop-loss levels for his long positions are about 8% below current market levels—though he doesn't anticipate that even a correction as modest as this is likely. ■