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PRACTITIONER'S DIGEST

The "Practitioner's Digest" emphasizes the practical significance of manuscripts featured in the "Insights" and "Articles" sections of the journal. Readers who are interested in extracting the practical value of an article, or who are simply looking for a summary, may look to this section.

MASS CUSTOMIZATION VERSUS MASS PRODUCTION – HOW AN INDUSTRIAL REVOLUTION IS ABOUT TO TAKE PLACE IN MONEY MANAGEMENT AND WHY IT INVOLVES A SHIFT FROM INVESTMENT PRODUCTS TO INVESTMENT SOLUTIONS PAGE 5

Lionel Martellini

Investors are facing specific problems, for which they need dedicated investment solutions, as opposed to off-the-shelf investment products. This recognition is leading to a new investment paradigm, which has been labeled liability-driven investing (LDI) in institutional money management, where investors' problems are broadly summarized in terms of their liabilities, and goal-based investing (GBI) in individual money management, where investors' problems can be fully characterized in terms of their lifetime meaningful goals. LDI/GBI investment solutions are deeply rooted in simple and profound academic principles and involve (i) a dedicated safe hedging portfolio that replicates risk factor exposures in investors' liabilities/goals, (ii) a common well-rewarded risky performance-seeking portfolio that efficiently harvest risk premia within and across asset classes, and (iii) a dynamic allocation to the safe versus risky portfolios that reacts to changes in market conditions and secures minimum goal/liability levels while generating a high probability to achieve target goal/liability levels. As such, the framework builds upon a comprehensive and holistic integration of the three forms of risk management, namely hedging, diversification and insurance. Risk management, defined as the ability for investors, or asset and wealth managers acting on their behalf, to efficiently spend their dollar and risk budgets so as to enhance the probability to reach their meaningful goals, will play a central role in an industrial revolution that will eventually lead to scalable, cost-efficient, investor-centric, welfare improving retirement investment solutions. In individual money management, this industrial revolution will be facilitated by the convergence of powerful forces, with a strong reduction of production costs due to the emergence of smart factor indices as cost-efficient alternatives to active managers, paralleled by a strong reduction of distribution costs due to the emergence of technological developments leading to an increased disintermediation of wealth management services.

HOW DO PRIVATE EQUITY INVESTMENTS PERFORM COMPARED TO PUBLIC EQUITY? **PAGE 14**

Robert S. Harris, Tim Jenkinson and Steven N. Kaplan

The merits of investing in private versus public equity have generated considerable debate, often fueled by concerns about data quality. In this paper, we use cash flow data derived from the holdings of almost 300 institutional investors to study over 1,800 North American buyout and venture capital funds. Average buyout fund returns for all vintage years but one before 2006 have exceeded those from public markets; averaging about 3% to 4% annually. Post-2005 vintage year returns have been roughly equal to those of public markets. We find similar performance results for a sample of almost 300 European buyout funds. Venture capital performance has varied substantially over time. North American venture funds from the 1990s substantially outperformed public equities; those from the early 2000s have underperformed; and recent vintage years have seen a modest rebound. The variation in venture performance is significantly linked to capital flows: performance is lower for funds started when there are large aggregate inflows of capital to the sector. We also examine the variation in performance of funds started in the same year. We find marked differences between venture and buyout leading to a much more pronounced impact of accessing high performing funds in venture investing.

IT'S EASY TO BEAT THE MARKET **PAGE 38**

Moshe Levy

Many academics and practitioners perceive the market portfolio as a benchmark that is hard to beat. Indeed, the amount of capital invested in market index funds is tremendous, and has more than doubled in the last decade. The goal of this paper is to challenge this widespread perception. We construct portfolios with weights that are drawn completely at random, and passively hold them for 5 years. This is done with a large number of random portfolios, and for all 5-year periods in the 1927–2014 timeframe. We find that in 69% of the cases the random portfolios beat the market portfolio over the corresponding period. Thus, it is embarrassingly simple to beat the market: even "dumb" randomly selected and passively held portfolios do so.

THE PROFITABLE DIVIDEND YIELD STRATEGY **PAGE 51**

Wai Mun Fong and Zhehan Ong

High dividend yield (high-DY) stocks attract an investor clientele that values income and low volatility.

Stocks with high gross profits-to-assets (high-GPA) provide a useful complement to high-DY stocks. High-GPA firms earn higher average returns than unprofitable stocks, consistent with the predictions of the clean surplus accounting model. In addition, high-GPA stocks have growth-like characteristics that hedge against the potentially higher distress risk of high-DY stocks.

Consistent with the above, a "profitable dividend yield" (PDY) strategy that combines stocks that have high-DY and high-GPA is shown to deliver higher average returns and Sharpe ratios than either of the standalone strategies.PDY continues to be a high yield strategy that has the same defensive features of pure high-DY stocks in down-market periods.

Consistent with the PDY's strategy's high Sharpe ratio, we show via bootstrap simulations thatPDY produces superior long-term outcomes across many performance dimensions such as expected terminal wealth and shortfall risk.