

Review of Average Variance Managed Investment Timing

The paper shows convincingly that timing investment based on average equity return variance (AV) versus index return variance (SV) delivers superior risk-adjusted returns. The results are important, convincing, and impressive.

Major comments

It's a great paper. Publish it.

It's too long. Some of the results can go in an Appendix. Be selective. For a published article there is no need to explain so much of Pollet and Wilson (2010) for example: you can just reference the original paper. Also you can dump some of the robustness results into the Appendix and just note them in the main text. The results on drawdowns are seminal, however, and should stay in the main text. The text also explains the point of some tests in the main text, whereas we should assume readers can understand them without such lengthy explanations.

Tables and figures are not in order. Renumber.

Minor comments

Page 5, para 1: A few studies have found that the variance-in-mean relation is present some of the time. Stambaugh, Yu and Yuan (2012) find a relation when market sentiment is low. Savor and Wilson (2014) find it on announcement days.

The explanation of why AV timing in the early period is less successful is useful, as you have explained why this is consistent with the original Pollet and Wilson explanation.

Can you update your results to end 2018?

Page 15 Table 2: you state that AV is more related to next period's SV than AV in the text, but the table doesn't appear to agree. (0.859 versus 0.625 in the text, unless I'm misreading.)

The opening paragraph to section V (awesome results) does not make sense.

The failure of AV to improve on SV on commodities probably explains Australian equities.

I didn't fully understand the point of the exercise in section V B (Return Dependence).

Robust out-of-sample stuff is important but boring. It surely belongs in the Appendix.

Future work (not for this paper unless the editor disagrees)

Can your AV timing approach mitigate spikes in returns which would not be anticipated by SV? (E.g. The recent vicious spikes in Asian markets because of Trump's trade-war tweets?).

Could this strategy have helped actively managed funds improve their performance (using holdings data)?