Out with the old and in with the new

A retrospective on Mesirow PrecisionAlpha® vs. the failure of traditional performance metrics

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Executive summary

This paper explores the impact of using trailing return to predict future performance. The results may not be what many investors expect.

Our findings:

- No truer phrase has been uttered than “past performance is no guarantee of future results.”
- The most widely used metric of trailing return is a poor predictor of performance at both the one-year and three-year horizon. The two broad equity category sets exhibited strong mean reversion tendencies, implying that the best on a trailing basis is the worst on a forward basis.
- Our results strongly confirm the tendency of traditional historical performance metrics to be negatively predictive of future relative performance (i.e., indicative of mean reversion), while supporting the historical efficacy of PrecisionAlpha as a positive predictor of future relative performance.
- PrecisionAlpha®, Mesirow’s answer to the shortcomings of traditional performance metrics, is the most consistent predictor of performance across broad category sets for both one-year and three-year horizon periods in our study.

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