Table 1
The Excess Return Regression Equation Estimated for FT All Shares Index
Based on all the regressors - 1965(1)-1993(12)

Regressors	Coefficients	Standard Errors	T-Ratios[Prob]
INPT	-.025382	.016081	-1.5784[.115]
D751	.49604	.057472	**8.6311[.000]**
D752	.22085	.055814	**3.9569[.000]**
D8710	-.26986	.052631	**-5.1273[.000]**
JAN	.019737	.010176	1.9397[.053]
YALL(-1)	.0095887	.0035005	**2.7393[.006]**
I3(-1)	-.3750E-4	.0010861	-.034530[.972]
PI12(-2)	-.0031521	.0018114	-1.7402[.083]
DI3(-1)	.0011743	.0044776	.26227[.793]
DLTR(-1)	-.012446	.0075066	-1.6580[.098]
DM012(-2)	-.34415	.14926	-**2.3057[.022]**
DIP12(-2)	.47761	.19739	**2.4196[.016]**
DPSPOT(-1)	-.060483	.013948	-**4.3364[.000]**

R-Squared	.35769	R-Bar-Squared	.33481
S.E. of Regression	.052199	F-stat. F(12, 337)	15.6388[.000]
Mean of Dependent Variable	.0067302	S.D. of Dependent Variable	.064002
Residual Sum of Squares	.91824	Equation Log-likelihood	543.4373
Akaike Info. Criterion	530.4373	Schwarz Bayesian Criterion	505.3608
DW-statistic	1.9991		

Diagnostic Tests

Test Statistics	LM Version	F Version
A:Serial Correlation	CHSQ(12)= 11.1928[.512]	F(12, 325)= .89472[.553]
B:Functional Form	CHSQ(1)= .69250[.405]	F(1, 336)= .66612[.415]
C:Normality	CHSQ(2)= 6.5748[.037]	Not applicable
D:Heteroscedasticity	CHSQ(1)= .64692[.421]	F(1, 348)= .64441[.423]

A: Lagrange multiplier test of residual serial correlation
B: Ramsey's RESET test using the square of the fitted values
C: Based on a test of skewness and kurtosis of residuals
D: Based on the regression of squared residuals on squared fitted values

- Figures in square brackets are rejection probabilities.
- See the Data Appendix for a description of the variables.

Table 2*

Non-parametric Statistic of Market Timing and the Proportion of Correctly Predicted Signs of Excess Returns for Different Model Selection Criteria and Sub-Periods

Model Selection Criteria	**Whole Period**	**Sub-Periods**	
		1970-79	**1980-89**
Akaike			
PT-Statistic	2.05	1.46	1.22
Proportion of Correct Signs %	57.3	56.7	60.0
Schwarz			
PT-Statistic	3.47	1.89	2.14
Proportion of Correct Signs %	61.5	58.3	65.0
R-Bar-Squared			
PT-Statistic	2.43	1.66	1.48
Proportion of Correct Signs %	58.3	57.5	60.8
All Regressors			
PT-Statistic	2.04	1.10	1.45
Proportion of Correct Signs %	58.3	55.8	62.5
Hyper-Selection			
PT-Statistic	2.64	1.57	1.25
Proportion of Correct Signs %	59.4	57.5	60.8

* The PT statistic is the non-parametric test statistic for market timing proposed in Pesaran and Timmermann (1992). This test, which is asymptotically equivalent to the Henriksson-Merton (1981) test of market-timing, has a standardized normal distribution in large samples. All selection criteria were applied recursively.

Table 3[*]
Performance Measures of the Switching Portfolios Relative to the FTA-All Share and T-Bills Index

(Monthly Results, 1970-1993, Zero Transaction Costs)

	Mean Return (%)	S.D. of Return (%)	Financial Performance Indices	
			Sharpe	Jensen
Market Portfolio	20.96	36.55	0.297	N/A
T-Bills	10.12	2.63	N/A	N/A
Switching Porfolios:				
<u>Akaike</u>	18.18	9.70	0.830	0.072(3.45)
<u>Schwarz</u>	20.27	11.28	0.899	0.091(3.86)
<u>R-Bar Squared</u>	18.22	9.87	0.821	0.073(3.49)
<u>All Regressors</u>	16.74	16.98	0.390	0.041(1.26)
<u>Hyper Selection</u>	17.36	12.03	0.602	0.060(2.46)

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[*] The switching portfolios are based on recursive least squares regressions of excess returns on an intercept term, the lagged dividend yield, the lagged three month T-bill rate, the two-period lagged inflation rate, and a subset of regressors selected from a set of 'secondary focal' and 'potentially relevant variables' referred to as the sets B_t and C_t. Dummies that are triggered recursively when the residual from the regression equation lies more than 3 standard errors away from zero may also be included in the regression. The hyper-selection criterion provides a criterion for choosing across the statistical model selection criteria themselves based on profits earned by following the signals generated by a particular selection criterion. S.D. is standard deviation of the returns, and Jensen and Sharpe are financial performance criteria which adjust the excess return on the portfolio under consideration for market risk (Jensen measure) or total risk (Sharpe index). Jensen's measure is the OLS estimate of the intercept in the regression of excess return for the switching portfolio on the excess return of the market portfolio. The *t*-ratio of this estimate is given in brackets. All measures are based on annual returns.

Table 4[*]
Performance Measures of the Switching Portfolios Relative to the FTA-All Share and T-Bills Index

(Monthly Results, 1970-1993, Medium Transaction Costs)

	Mean Return (%)	S.D. of Return (%)	Financial Performance Indices	
			Sharpe	Jensen
Market Portfolio	20.89	36.55	0.330	N/A
T-Bills	8.81	2.60	N/A	N/A
Switching Portfolios:				
Akaike	16.73	10.01	0.791	0.070(3.21)
Schwarz	19.24	11.51	0.906	0.093(3.80)
R-Bar Squared	16.59	10.29	0.755	0.068(3.11)
All Regressors	15.31	17.54	0.370	0.036(1.06)
Hyper Selection	17.51	13.27	0.655	0.074(2.65)

[*] See the note to Table 3.

Table 5*
Performance Measures of the Switching Portfolios Relative to the FTA-All Share and T-Bills Index

(Month Results 1970-1993, High Transaction Costs)

	Mean Return (%)	S.D. of Return (%)	Financial Performance Indices	
			Sharpe	Jensen
Market Portfolio	20.81	36.55	0.328	N/A
T-Bills	8.81	2.60	N/A	N/A
Switching Portfolios:				
Akaike	15.86	10.17	0.693	0.061(2.80)
Schwarz	18.79	11.55	0.864	0.090(3.62)
R-Bar Squared	15.53	10.56	0.637	0.058(2.58)
All Regressors	14.33	17.96	0.307	0.026(0.75)
Hyper Selection	17.53	13.20	0.661	0.078(2.81)

* See the note to Table 3.