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Comparing Life-Cycle and Contrarian Investment Strategies

Conventional wisdom holds that, when saving for retirement, individual investors should reduce their exposure to equities as retirement approaches. A recent strand of (high profile) literature criticizes this approach and purports to empirically demonstrate the superiority of so-called contrarian strategies, where exposure to equities is increased as retirement approaches. In this talk we formally (i.e. theoretically and rigorously) demonstrate that the underlying analysis is flawed and misleading, and prove that, within a certain parametric class, decreasing allocations (those that reduce their exposure to equities over time) strictly dominate increasing allocations in the mean-variance sense.