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On Insurance Investing, Part 3

Subtitle: The Value of Momentum and Mean-Reversion

In the extreme short-run, mean-reversion dominates. Over a year, momentum dominates. Over a four year period mean-reversion returns.

The same applies to insurance stocks. This is perhaps more true of insurance stocks, because the accounting is so opaque. When accounting is opaque, it takes a longer period of time for market prices to catch up with the underlying reality.

I do not trust momentum naively. I compare it to fundamentals and ask if it has more room to run or fall. Remember, insurance is a mature industry... there are few sustainable competitive advantages here. Near turning points, valuations are stretched or in the dumps.

That said, here is my table of momentum for the insurance industry:

company
ticker
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Radian Group Inc.
RDN
0715 - Insurance (Property & Casualty)
882.0

155%

Homeowners Choice, Inc.
HCI
0715 - Insurance (Property & Casualty)
241.1

146%

Stewart Information Services C
STC

0715 - Insurance (Property & Casualty)
528.1

100%

Imperial Holdings, Inc.
IFT
0712 - Insurance (Miscellaneous)
89.7

86%

Kingsway Financial Services In
KFS
0715 - Insurance (Property & Casualty)
54.0

68%

Atlantic American Corporation
AAME
0709 - Insurance (Life)
69.7

63%

eHealth, Inc.
EHTH
0712 - Insurance (Miscellaneous)
506.9

59%

Investors Title Company
ITIC
0715 - Insurance (Property & Casualty)
135.2

59%

First American Financial Corp
FAF
0715 - Insurance (Property & Casualty)
2,522.8

58%

Coventry Health Care, Inc.
CVH
0706 - Insurance (Accident & Health)
6,239.6

57%

Hilltop Holdings Inc.
HTH
0715 - Insurance (Property & Casualty)
753.0

55%

CNO Financial Group Inc
CNO
0709 - Insurance (Life)
2,315.5

52%

Allstate Corporation, The
ALL
0715 - Insurance (Property & Casualty)
21,154.9

51%

Symetra Financial Corporation
SYA
0709 - Insurance (Life)

1,629.6

50%

American International Group,
AIG
0715 - Insurance (Property & Casualty)
54,180.4

46%

Sun Life Financial Inc. (USA)
SLF
0709 - Insurance (Life)
17,505.2

46%

Platinum Underwriters Holdings
PTP
0715 - Insurance (Property & Casualty)
1,595.2

43%

Hartford Financial Services Gr
HIG
0715 - Insurance (Property & Casualty)
10,829.2

41%

Lincoln National Corporation
LNC
0709 - Insurance (Life)
8,005.7

41%

Amtrust Financial Services, In
AFSI
0715 - Insurance (Property & Casualty)
2,232.4

40%

HCC Insurance Holdings, Inc.
HCC
0715 - Insurance (Property & Casualty)
3,989.2

39%

Fidelity National Financial In
FNF
0715 - Insurance (Property & Casualty)
5,669.5

38%

Horace Mann Educators Corporat
HMN
0715 - Insurance (Property & Casualty)
847.4

38%

Montpelier Re Holdings Ltd.
MRH
0715 - Insurance (Property & Casualty)
1,341.4

37%

Seabright Holdings Inc
SBX
0715 - Insurance (Property & Casualty)
249.3

37%

Verisk Analytics, Inc.
VRSK
0712 - Insurance (Miscellaneous)
9,172.3

37%

AEGON N.V. (ADR)
AEG
0709 - Insurance (Life)
13,026.1

36%

Fortegra Financial Corp
FRF
0712 - Insurance (Miscellaneous)
179.3

35%

XL Group plc
XL
0715 - Insurance (Property & Casualty)
8,353.8

35%

Primerica, Inc.
PRI
0709 - Insurance (Life)
1,877.3

34%

Allied World Assurance Co Hold
AWH
0715 - Insurance (Property & Casualty)
2,946.7

34%

Travelers Companies, Inc., The
TRV
0715 - Insurance (Property & Casualty)
29,569.3

33%

Everest Re Group Ltd
RE
0715 - Insurance (Property & Casualty)
5,944.0

33%

Prudential Public Limited Comp
PUK
0709 - Insurance (Life)
38,254.3

33%

CIGNA Corporation
CI
0706 - Insurance (Accident & Health)
16,718.9

33%

United Insurance Holdings Corp
UIHC
0715 - Insurance (Property & Casualty)
91.9

32%

Partnerre Ltd
PRE
0715 - Insurance (Property & Casualty)
5,236.2

32%

Cincinnati Financial Corporati
CINF
0715 - Insurance (Property & Casualty)
6,959.7

29%

Protective Life Corp.
PL
0709 - Insurance (Life)
2,500.8

29%

Argo Group International Holdi
AGII
0715 - Insurance (Property & Casualty)
926.7

29%

Hallmark Financial Services, I
HALL
0715 - Insurance (Property & Casualty)
171.6

26%

Aspen Insurance Holdings Limit

AHL
0715 - Insurance (Property & Casualty)
2,380.3

26%

Alterra Capital Holdings Ltd
ALTE
0715 - Insurance (Property & Casualty)
2,911.1

25%

Torchmark Corporation
TMK
0709 - Insurance (Life)
5,314.2

24%

Alleghany Corporation
Y
0715 - Insurance (Property & Casualty)
6,048.5

24%

Eastern Insurance Holdings Inc
EIHI
0709 - Insurance (Life)
135.2

24%

Berkshire Hathaway Inc.
BRK.A
0715 - Insurance (Property & Casualty)
242,512.2

23%

Manulife Financial Corporation
MFC
0709 - Insurance (Life)
26,899.6

23%

Arch Capital Group Ltd.
ACGL
0715 - Insurance (Property & Casualty)
6,188.5

22%

Enstar Group Ltd.
ESGR
0715 - Insurance (Property & Casualty)
2,006.2

22%

Axis Capital Holdings Limited
AXS
0715 - Insurance (Property & Casualty)
4,664.5

22%

Genworth Financial Inc
GNW
0709 - Insurance (Life)
4,647.8

21%

Aon PLC
AON

0712 - Insurance (Miscellaneous)
18,361.6

21%

American Equity Investment Lif
AEL
0709 - Insurance (Life)
862.9

20%

White Mountains Insurance Grou
WTM
0715 - Insurance (Property & Casualty)
3,585.0

20%

ACE Limited
ACE
0715 - Insurance (Property & Casualty)
28,999.2

20%

Markel Corporation
MKL
0715 - Insurance (Property & Casualty)
4,581.2

19%

United Fire Group, Inc.
UFCS
0715 - Insurance (Property & Casualty)
595.0

19%

Employers Holdings, Inc.
EIG
0715 - Insurance (Property & Casualty)
658.7

18%

W.R. Berkley Corporation
WRB
0715 - Insurance (Property & Casualty)
5,643.1

18%

Amerisafe, Inc.
AMSF
0715 - Insurance (Property & Casualty)
517.4

18%

National Interstate Corporatio
NATL
0715 - Insurance (Property & Casualty)
592.7

18%

Old Republic International Cor
ORI
0715 - Insurance (Property & Casualty)
2,906.0

17%

Kansas City Life Insurance Co
KCLI
0709 - Insurance (Life)

418.7

17%

Brown & Brown, Inc.
BRO
0712 - Insurance (Miscellaneous)
3,901.8

17%

Aetna Inc.
AET
0706 - Insurance (Accident & Health)
16,644.7

17%

Crawford & Company
CRD.B
0712 - Insurance (Miscellaneous)
305.5

16%

Universal Insurance Holdings,
UVE
0715 - Insurance (Property & Casualty)
182.4

16%

Chubb Corporation, The
CB
0715 - Insurance (Property & Casualty)
21,220.1

15%

National Western Life Insuranc
NWLI
0709 - Insurance (Life)
593.0

15%

American Financial Group
AFG
0715 - Insurance (Property & Casualty)
3,862.0

15%

Loews Corporation
L
0715 - Insurance (Property & Casualty)
17,109.9

15%

Endurance Specialty Holdings L
ENH
0715 - Insurance (Property & Casualty)
1,839.7

14%

China Life Insurance Company L
LFC
0709 - Insurance (Life)
91,295.3

14%

State Auto Financial
STFC
0715 - Insurance (Property & Casualty)
602.7

14%

Principal Financial Group Inc
PFG
0706 - Insurance (Accident & Health)
9,036.6

13%

EMC Insurance Group Inc.
EMCI
0715 - Insurance (Property & Casualty)
324.6

13%

Maiden Holdings, Ltd.
MHLD
0715 - Insurance (Property & Casualty)
758.2

13%

RenaissanceRe Holdings Ltd.
RNR
0715 - Insurance (Property & Casualty)
3,982.5

13%

Validus Holdings, Ltd.
VR
0709 - Insurance (Life)
3,340.1

12%

Selective Insurance Group
SIGI
0715 - Insurance (Property & Casualty)
1,106.6

12%

UnitedHealth Group Inc.
UNH
0706 - Insurance (Accident & Health)
57,244.5

11%

Hanover Insurance Group, Inc.,
THG
0715 - Insurance (Property & Casualty)
1,821.7

11%

Cna Financial Corp
CNA
0715 - Insurance (Property & Casualty)
8,351.3

11%

ProAssurance Corporation
PRA
0715 - Insurance (Property & Casualty)
2,752.6

11%

Assured Guaranty Ltd.
AGO
0715 - Insurance (Property & Casualty)
3,264.4

11%

Marsh & McLennan Companies, In
MMC
0712 - Insurance (Miscellaneous)
19,053.5

10%

Safety Insurance Group, Inc.
SAFT
0715 - Insurance (Property & Casualty)
728.8

10%

Unico American Corporation
UNAM
0715 - Insurance (Property & Casualty)
68.2

10%

Progressive Corporation, The
PGR
0715 - Insurance (Property & Casualty)
13,682.1

10%

Independence Holding Company
IHC
0709 - Insurance (Life)
167.3

10%

AFLAC Incorporated

AFL
0706 - Insurance (Accident & Health)
25,077.1

10%

Navigators Group, Inc, The
NAVG
0715 - Insurance (Property & Casualty)
751.0

10%

Metlife Inc
MET
0709 - Insurance (Life)
41,077.8

9%

Kemper Corp
KMPR
0715 - Insurance (Property & Casualty)
1,874.3

8%

ING Groep N.V. (ADR)
ING
0709 - Insurance (Life)
37,707.5

7%

Arthur J. Gallagher & Co.
AJG
0712 - Insurance (Miscellaneous)
4,502.5

7%

American National Insurance Co
ANAT
0715 - Insurance (Property & Casualty)
2,070.2

7%

Prudential Financial Inc
PRU
0709 - Insurance (Life)
27,417.8

6%

StanCorp Financial Group, Inc.
SFG
0706 - Insurance (Accident & Health)
1,776.7

4%

Global Indemnity plc
GBLI
0715 - Insurance (Property & Casualty)
535.1

4%

WellPoint, Inc.
WLP
0706 - Insurance (Accident & Health)
20,092.9

3%

FBL Financial Group
FFG

0709 - Insurance (Life)
902.6

2%

Unum Group
UNM
0709 - Insurance (Life)
6,407.6

2%

Infinity Property and Casualty
IPCC
0715 - Insurance (Property & Casualty)
684.9

2%

Baldwin & Lyons, Inc.
BWINB
0715 - Insurance (Property & Casualty)
340.7

1%

Molina Healthcare, Inc.
MOH
0706 - Insurance (Accident & Health)
1,357.9

-2%

Reinsurance Group of America I
RGA
0706 - Insurance (Accident & Health)
4,098.1

-2%

Assurant, Inc.
AIZ
0709 - Insurance (Life)
3,039.7

-3%

RLI Corp.
RLI
0715 - Insurance (Property & Casualty)
1,439.5

-6%

Erie Indemnity Company
ERIE
0715 - Insurance (Property & Casualty)
3,283.2

-7%

Citizens, Inc.
CIA
0709 - Insurance (Life)
459.8

-8%

American Safety Insurance Hold
ASI
0715 - Insurance (Property & Casualty)
196.8

-8%

Tower Group Inc
TWGP
0715 - Insurance (Property & Casualty)

740.9

-10%

Willis Group Holdings PLC
WSH
0712 - Insurance (Miscellaneous)
6,032.0

-10%

Mercury General Corporation
MCY
0715 - Insurance (Property & Casualty)
2,183.3

-11%

OneBeacon Insurance Group, Ltd
OB
0715 - Insurance (Property & Casualty)
1,308.7

-12%

Greenlight Capital Re, Ltd.
GLRE
0715 - Insurance (Property & Casualty)
835.9

-12%

Donegal Group Inc.
DGICA
0715 - Insurance (Property & Casualty)
371.4

-12%

Universal American Corporation
UAM
0706 - Insurance (Accident & Health)
801.3

-13%

Humana Inc.
HUM
0706 - Insurance (Accident & Health)
11,855.7

-14%

CNinsure Inc. (ADR)
CISG
0712 - Insurance (Miscellaneous)
330.1

-17%

Health Net, Inc.
HNT
0706 - Insurance (Accident & Health)
2,204.9

-24%

MGIC Investment Corp.
MTG
0715 - Insurance (Property & Casualty)
581.9

-26%

MBIA Inc.
MBI
0715 - Insurance (Property & Casualty)
1,631.2

-30%

Meadowbrook Insurance Group, I
MIG
0715 - Insurance (Property & Casualty)
318.1

-36%

Phoenix Companies, Inc., The
PNX
0709 - Insurance (Life)
156.1

-36%

Life Partners Holdings, Inc.
LPHI
0712 - Insurance (Miscellaneous)
50.3

-40%

I note that the basement contains a lot of funky companies with issues. The penthouse contains a lot of credit-sensitive companies that have rallied off of the strong equity market, and moderately strong housing market.

I do not have much trust in the momentum now, because many are trusting in the rosy scenario where losses have been normalized. I do not think that is the case, and think that there will be additional losses from credit risk coming soon.