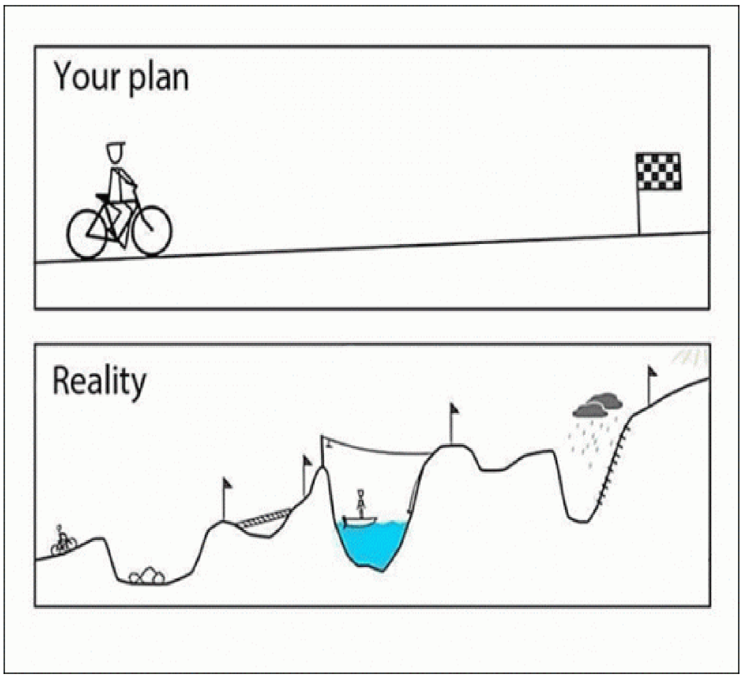
It's Time to Re-Think Your Asset Allocation with Tactical Management (December 2021)

Advisors often attempt to maintain a portfolio focus on long-term expectations using Strategic Asset Allocation. This buy-and-hold investment approach is meant to anchor portfolios to be fully invested, diversified, and with sufficient risk-taking to achieve clients' financial objectives.

However, ***past performance is no guarantee of future returns***.



Strategic asset allocations are usually a mix of traditional stocks and bonds set to a target allocation and rebalanced periodically based off a client's risk tolerance. But the long-term assumptions used to arrive at strategic asset allocations don't always reflect current market conditions. Moreover, this highlights the wide range of outcomes for Strategic Allocation strategies, which can undermine Advisor's confidence in achieving clients desired financial outcomes. In the current environment, we believe portfolios managed with a strategic discipline may be challenged to meet investor expectations over the next decade and advisors should consider alternative strategies like Tactical Asset Allocation.

What is Tactical Allocation?

Tactical Asset Allocation attempts to reduce portfolio volatility in risk-off periods. It's an unconstrained investment approach that can quickly change its allocation and risk profile by moving portfolio allocations in and out of asset classes.

By objectively responding to market trends, tactical strategies seek to outperform during volatility and during periods of longer-term consolidations in financial assets.

Many clients can't handle the volatility associated with a buy and hold approach of investing solely in one or two asset classes. Tactical Asset Allocation has the potential to provide some diversification and help smooth out the ride. From a client management standpoint, clients like to see how their portfolio is adapting to the current environment.

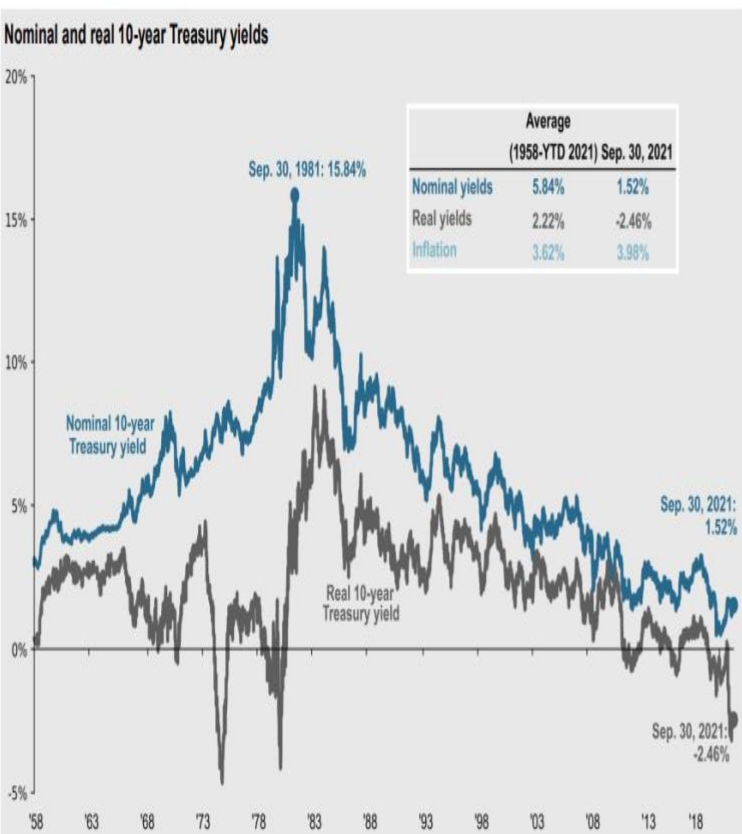
Donoghue Forlines has a suite of tactical rules based and fundamental strategies dedicated to balancing growth and risk. You can **learn about the full product suite here**.

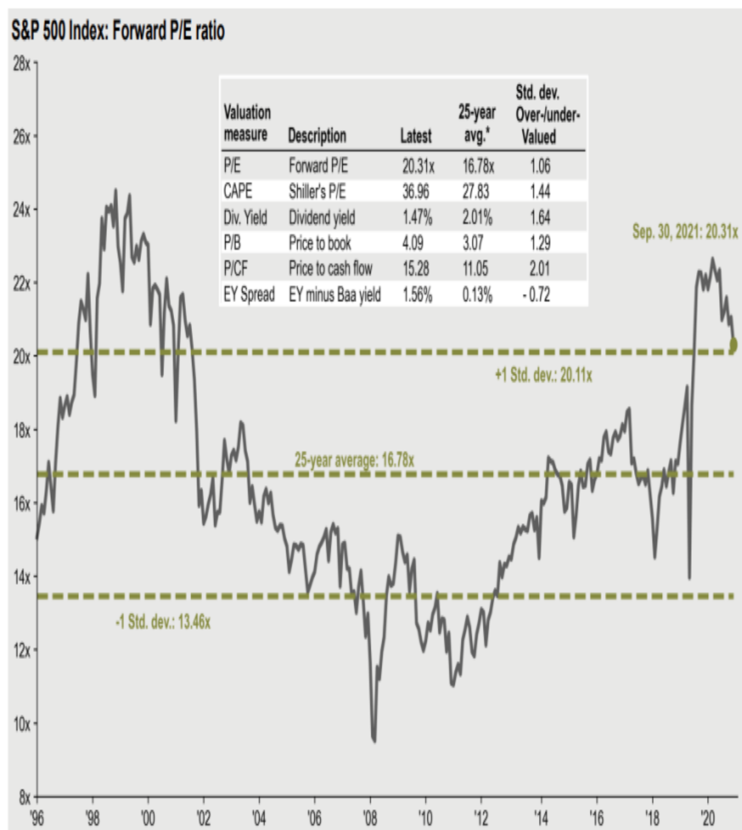
Why Now?

Over the last 20 years, the world was in a deflationary period during which government bonds and equities were inversely correlated over the short-term, but with similar total returns over the long run. Therefore, the automatic rebalancing of buy-and-hold investments was good enough. Strategic allocations outperformed and advisors piled into these passive strategies.

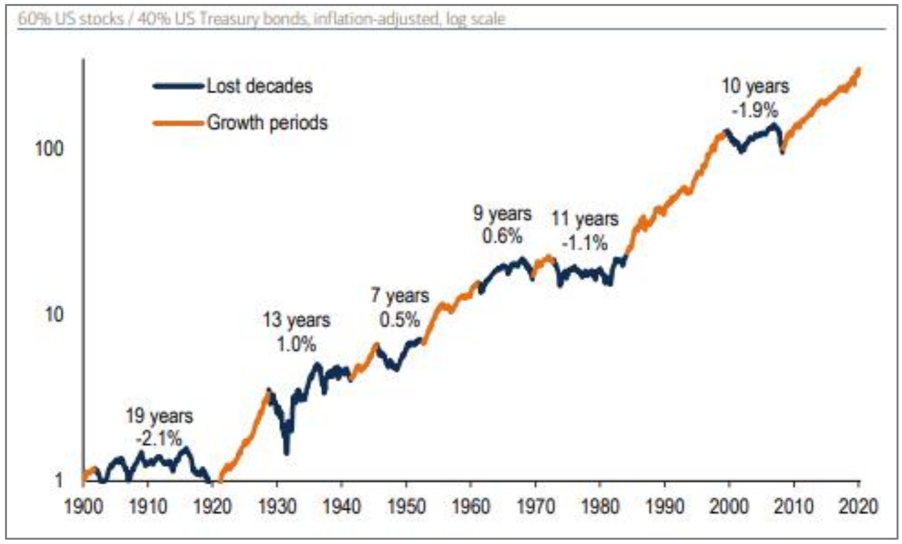
We find that these high returns have given rise to a feeling amongst investors "what has worked will continue to work"—**a behavioral misstep known as recency bias.**

But *starting points matter* … and elevated valuations and historically low rates suggest lower future returns for strategic portfolios.





It's easy to forget that returns haven't always been hard to come by. Looking at 60% equity and 40% bond portfolio, the guidepost of moderate strategic asset allocation, has experienced multiple "lost decades" over history. Can your clients go 10 years with no real returns?



Consider Allocating to Our Tactical Strategies

In today's low-return environment, advisors are challenged to rethink foundational elements of investor portfolios – which means seeking out strategies that bolster the "core" going forward. With no cheap assets, tactical and unconstrained management is now more important than ever. Our portfolios offer a liquid, multi-asset complement to strategic asset allocations that address these very challenges.

For additional details and insights, reach out to us at AdvisorRelations@donoghueforlines.com.

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