

Tactical or Strategic?: Creating Dynamic Portfolio Solutions

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Due to the extreme market volatility that has ensued since the credit crisis began in the summer of 2007, investors have been forced to reassess the investment strategies that have been in place to meet their investment objectives. Historically, the vast majority of investors, individuals to institutions, have embraced the merits of strategically allocated portfolios as the core component of their aggregate investment strategies. Clearly, the investment landscape has changed and, as a result, investment advisors are embracing the idea of dynamic investment strategies: specifically, broad investment strategies that incorporate the attributes of strategic asset allocation and tactical asset allocation.

At the aggregate portfolio level, the objective of incorporating a Tactical Asset Allocation strategy can improve a portfolio’s ability to seek to preserve capital in volatile environments and grow capital during favorable equity markets. The critical component of a Tactical Asset Allocation strategy is its perceived ability to move in and out of equity beta exposure depending on market conditions. Tactically allocated portfolios can offer investors a unique approach to money management, based on the belief that tactical asset allocation can opportunistically take advantage of market pricing anomalies or strong market sectors. Tactical asset allocation strives to avoid

catastrophic drawdowns of principal, to identify and manage risk in all market environments and take advantage of market opportunities that are experiencing dislocation from intrinsic valuation.

Strategic Asset Allocation strategy allocates proportions of a portfolio to different asset classes. It essentially combines capital market expectations, as represented by the efficient frontier, and the investor’s risk, return, and investment constraints. A Strategic Asset Allocation strategy is a conscious effort to gain exposure to systematic risk (i.e. the risk inherent to the entire market) via specific weights to individual asset classes over a longer term investment horizon.

The combination of strategic asset allocation and tactical asset allocation into a synthesized portfolio seeks to afford an investor the opportunity to participate in the equity and fixed income capital markets with an allocation that is designed for a time horizon in excess of five years with the flexibility to dynamically increase or decrease the portfolio’s equity beta exposure in response to shorter term capital market opportunities. The dynamic flexibility of the synthesized portfolio is critical for the possible prevention of cataclysmic drawdown of principal when equity downside deviation exceeds ‘modeled historical ranges’.

Selecting an Asset Allocation Strategy¹

Selecting the best allocation approach depends on an investor’s goals and preferences. For instance, does the investor wish to actively trade the portfolio and formulate assumptions about changes in capital market expectations? Or does the investor wish to take a more measured, long-term approach? The table below illustrates the features of each asset allocation approach.¹

	Buy-and-Hold	Strategic	Tactical	Integrated ²
Rebalances to Target Allocation	No	Yes	Yes	Yes
Assumes Changes in Investor’s Risk Tolerance	Yes	No	No	Yes
Anticipates Changes in Capital Market Expectations	No	No	Yes	Yes
Works Best in:	A Trending Market	A Flat, Fluctuating Market	*	*

* Tactical and integrated asset allocation are less mechanical, more active approaches. Thus, they have the potential to work well in any market, but rely upon the investor’s skill in anticipating capital market changes.¹

¹ Source: Fundamentals: The Benefits of Asset Allocation and Rebalancing, UBS Financial Services Inc. www.ubs.com/financialservicesinc.

² The term “Integrated” should be interpreted as a blended approach of the “Strategic” and “Tactical” approaches.

A Synthesized Portfolio Strategy At A Glance

Dynamic portfolio solutions can be mapped out for various investor risk and return requirements, similar to a strategic asset allocation efficient frontier with a significant adjustment required to incorporate tactical asset allocation. From an investor’s profiling and mapping perspective, in order to invest in the appropriate synthesized asset allocation, the investor must state how much equity exposure ‘in a bullish equity market environment’ is appropriate based on the investor’s ability and willingness to take on risk. The phrase ‘in a bullish equity market environment’ is critical as an investor must grasp that a specific percentage of his or her aggregate portfolio should bear a maximum exposure to equities that is consistent with his or her risk tolerance.

equity asset class strategic target. The objective benefits of the Risk-Based strategies are constant equity and fixed income exposure, the ability to under or overweight equity exposure based on market conditions and the ease of mapping a client to an appropriate portfolio based on the client’s investment objectives and risk profile.

The PMC Tactical ETF Portfolio Series—Country and Sector Rotation portfolios offer investors the ability to participate in the domestic and international equity markets when economic and market conditions are favorable for P/E expansion and tactically allocate away from equity beta exposure when conditions are expected to deteriorate. The Sector Rotation portfolio analyzes each of the ten S&P GICS sectors in isolation and compares the relative attractiveness

Various Dynamic Portfolio Solutions for All Risk Tolerances

Conservative	Conservative Growth	Moderate	Moderate Growth	Growth
<ul style="list-style-type: none"> PMC Tactical ETF Fixed Income 50% Fixed Income Separately Managed Account (SMA) Solution 50% Conservative SMA/PMC Tactical ETF Rotation Portfolios (Max equity 40%)* MF Wrap Conservative 50% PMC Tactical ETF Risk-Based Core -Conservative Portfolio 50% 	<ul style="list-style-type: none"> Conservative Growth SMA/PMC Tactical ETF Rotation Portfolios (Max equity 50%)* MF Wrap Cons. Growth 50% PMC Tactical ETF Risk-Based Core -Conservative Growth Portfolio 50% MF Wrap Cap. Preservation 50% PMC Tactical ETF Rotation Core -Sector Portfolio 20% PMC Tactical ETF Rotation Core -Country Portfolio 20% Alternatives 10% 	<ul style="list-style-type: none"> Moderate SMA/PMC Tactical ETF Rotation Portfolios (Max equity 60%)* MF Wrap Moderate 50% PMC Tactical ETF Risk-Based Core -Moderate Portfolio 50% MF Wrap Conservative 50% PMC Tactical ETF Rotation Core -Sector Portfolio 20% PMC Tactical ETF Rotation Core -Country Portfolio 20% Alternatives 10% 	<ul style="list-style-type: none"> Moderate Growth SMA/PMC Tactical ETF Rotation Portfolios (Max equity 70%)* MF Wrap Mod. Growth 50% PMC Tactical ETF Risk-Based Core -Moderate Growth Portfolio 50% MF Wrap Cons. Growth 50% PMC Tactical ETF Rotation Core -Sector Portfolio 20% PMC Tactical ETF Rotation Core -Country Portfolio 20% Alternatives 10% 	<ul style="list-style-type: none"> Growth SMA/PMC Tactical ETF Rotation Portfolios (Max equity 80%)* MF Wrap Growth 50% PMC Tactical ETF Risk-Based Core -Growth Portfolio 50% MF Wrap Mod. Growth 50% PMC Tactical ETF Rotation Core -Sector Portfolio 20% PMC Tactical ETF Rotation Core -Country Portfolio 20% Alternatives 10%

* For SMA/Tactical combinations, equity exposure refers to the amount of equity exposure for SMAs as well as the equity exposure for the rotation portfolios, assuming that they are fully invested in equities.

The synthesized portfolio efficient frontier spectrum shown above has the appropriate combination of strategically allocated and tactically allocated strategies for every potential risk tolerance that an advisor may encounter.

The PMC Tactical ETF Portfolio Series includes two strategies: the *Risk-Based* and *Rotation* portfolios.

The PMC Tactical ETF Portfolio Series—Risk-Based strategies are offered in five portfolios spanning the efficient frontier from Conservative to Growth. The portfolios offer investors a framework that is based on strategic asset allocation with a tactical overlay on each

of investing in a S&P GICS sector or in a U.S. based actively managed fixed income portfolio. Similar to the Sector Rotation portfolio, the Country Rotation portfolio analyzes 20 countries independently and compares the relative attractiveness of investing in one of the 20 countries or in a U.S. based actively managed fixed income portfolio. The unique aspect of the Sector and Country Rotation portfolios is their objective ability to move capital into attractive sectors and countries, and conversely, move entirely into fixed income when the equities markets offer poor prospects for P/E expansion.

All investments carry a certain risk and there is no assurance that an investment objective will be met. The value of an investment and the return on invested capital will fluctuate over time and, when sold or redeemed, may be worth less than its original cost. This presentation is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation of an offer, or a recommendation, to buy a security. Investors should consult with an investment advisor to determine the appropriate investment vehicle. Investment decisions should always be made based on the investor’s specific financial needs and objectives, goals, time horizon, and risk tolerance. Asset classes described in this presentation may not be suitable for all investors. Past performance is no guarantee of future results.