



Objective:	Tactical Allocation	Process:	Quantitative
Asset Class:	Global Multi-Asset	Implementation:	ETFs
Holdings:	2 - 5	Style Box:	Large Blend
Inception:	Oct. 2009	Structure:	SMA ⁴

Description

This strategy complements the core of a portfolio by delivering tactical adjustments to market exposures on a weekly basis. The strategy holds up to five ETFs representing the major risk markets globally, with a fixed income out-position that ranges from zero to 90%. Portfolio changes are driven by a quantitative marker called a “moving average.” Risk market ETFs are retained in the portfolio when they demonstrate a positive trend, and they are removed when the trend turns negative.

Process

Risk market exposures are diversified across four quadrants – domestic equity, developed international equity, emerging markets and tangible assets (natural resources and real estate). Each quadrant is reviewed on a monthly cycle, but the reviews are staggered weekly throughout the month.

On the first Friday of the month, the ETF for developed international equities is measured against its intermediate term moving average as of the close of markets on Thursday. If the price of the ETF is higher than its moving average the ETF is retained in the portfolio until its next scheduled review. If the international ETF closes below its moving average on Thursday, it is sold on Friday and replaced with an ETF for investment-grade fixed income and cash reserves.

On the second Friday of the month the ETF for domestic equities is reviewed according to the same process. The emerging markets ETF is reviewed on the third Friday of the month, while natural resources and real estate are reviewed together on the fourth Friday. The objective is to retain exposure to risk markets when their moving average indicator suggests a relatively favorable short-term outlook, while switching to fixed income and cash when the outlook is less favorable.

Role in Portfolio

The Dynamic Allocation strategy systematically adjusts the risk profile of a diversified portfolio to reflect prevailing market conditions. For example, a portfolio with a 40% allocation to fixed income, 50% in equities, and 10% in Dynamic Allocation would have a 10% swing factor in its overall allocation to equities. When the recent trend in the global equity markets has been positive, this hypothetical portfolio would likely have close to 60% of its allocation in the equity markets. When the recent trend has been negative, implying that several risk markets might be trading below their moving average, this hypothetical portfolio might be more defensive with just 50% of its allocation in equities.

⁴ The acronym SMA refers to “Separately Managed Account.”

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Introduction

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MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

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