



# ADVISOR 2019 SYMPOSIUM

**Fashion Island Hotel  
Newport Beach, California**

**March 11-13      2019**

# A Multi-Signal Approach to Asset Allocation

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# Investors Have Competing Objectives?

- Different investors have different objectives
- At any given time a single investor has competing objectives
- Investor “top of mind” objectives change over time

# Capturing Competing Objectives

Wealth Preservation	“Keeping Up with the Joneses”	Income Desire	Aspirations
<ul style="list-style-type: none"><li>How do I make sure my wealth doesn’t meaningfully decrease?</li></ul>	<ul style="list-style-type: none"><li>How do I make sure my neighbors don’t do meaningfully better than I do?</li></ul>	<ul style="list-style-type: none"><li>How do I make sure I’m receiving meaningful cash flows from my investments?</li></ul>	<ul style="list-style-type: none"><li>How do I move to the next highest wealth cohort (e.g., “get rich”)</li></ul>
<ul style="list-style-type: none"><li>Lower Risk</li></ul>	<ul style="list-style-type: none"><li>Variable Risk</li></ul>	<ul style="list-style-type: none"><li>Variable Risk</li></ul>	<ul style="list-style-type: none"><li>Higher Risk</li></ul>
Tax Efficiency			

# How a Retired Couple Found Lottery Odds in Their Favor



Source: [www.cbsnews.com/news/jerry-and-marge-selbee-how-a-retired-couple-won-millions-using-a-lottery-loophole-60-minutes/](https://www.cbsnews.com/news/jerry-and-marge-selbee-how-a-retired-couple-won-millions-using-a-lottery-loophole-60-minutes/).

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# Constant Asset Allocation Approach

	STOCKS				FIXED INCOME					ALTERNATIVES						CASH Total
	Total	U.S.	Devel- oped	Emerging	Total	U.S.	High Grade/ HY	Devel- oped	Emerging	Total	Real Estate	Commodities	Hedge Funds	Private Equity	Other	
Atlantic Trust	49.0%	38.0%	9.0%	2.0%	27.0%	27.0%	25/2	0.0%	0.0%	22.0%	1.0%	0.0%	19.0%	2.0%	0.0%	2.0%
BB&T	59.0	27.1	27.1	4.7	36.0	32.4	30.6/1.8	3.6	0.0	5.0	0.0	0.0	5.0	0.0	0.0	0.0
Bernstein GWM	46.0	32.0	11.0	3.0	35.0	35.0	35/0	0.0	0.0	15.0	1.0	2.0	9.0	3.0	0.0	4.0
Bessemer	47.8	27.2	17.6	3.0	19.9	19.5	18.6/9	0.4	0.0	26.0	6.0	0.0	10.0	10.0	0.0	6.7
BlackRock	55.0	31.0	20.0	4.0	29.0	26.0	26/3	0.0	3.0	16.0	3.0	0.0	7.0	6.0	0.0	0.0
BMO Private Bank	57.0	30.0	21.0	6.0	16.0	16.0	16/0	0.0	0.0	20.0	2.0	2.0	6.0	0.0	10.0	7.0
BNY Mellon	46.1	29.1	13.5	3.5	26.3	26.3	24.3/2	0.0	0.0	27.6	1.5	1.2	11.0	10.0	3.9	0.0
Boston PWM	52.5	29.0	19.0	4.5	30.0	28.0	0	2.0	0.0	15.0	0.0*	0.0*	8.0	7.0*	0.0	2.5
Brown Advisory	47.0	27.0	10.0	10.0	20.0	20.0	14/6	0.0	0.0	28.0	5.0	2.0	13.0	6.0	2.0	5.0
Brown Brothers Harriman	56.0	40.0	9.0	7.0	24.0	24.0	24/0	0.0	0.0	17.0	4.0	0.0	3.0	6.0	4.0	3.0
Capital Group	50.0	22.0	21.0	7.0	35.0	35.0	30/5	0.0	0.0	15.0	0.0	0.0	10.0	5.0	0.0	0.0
Citi Private Bank	40.1	18.7	16.6	4.9	27.9	14.1	12.9/1.2	13.2	0.6	28.0	5.0	0.0	18.0	5.0	0.0	4.0
City National Bank	54.0	46.0	3.0	5.0	42.0	38.0	26/12	1.0	2.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0

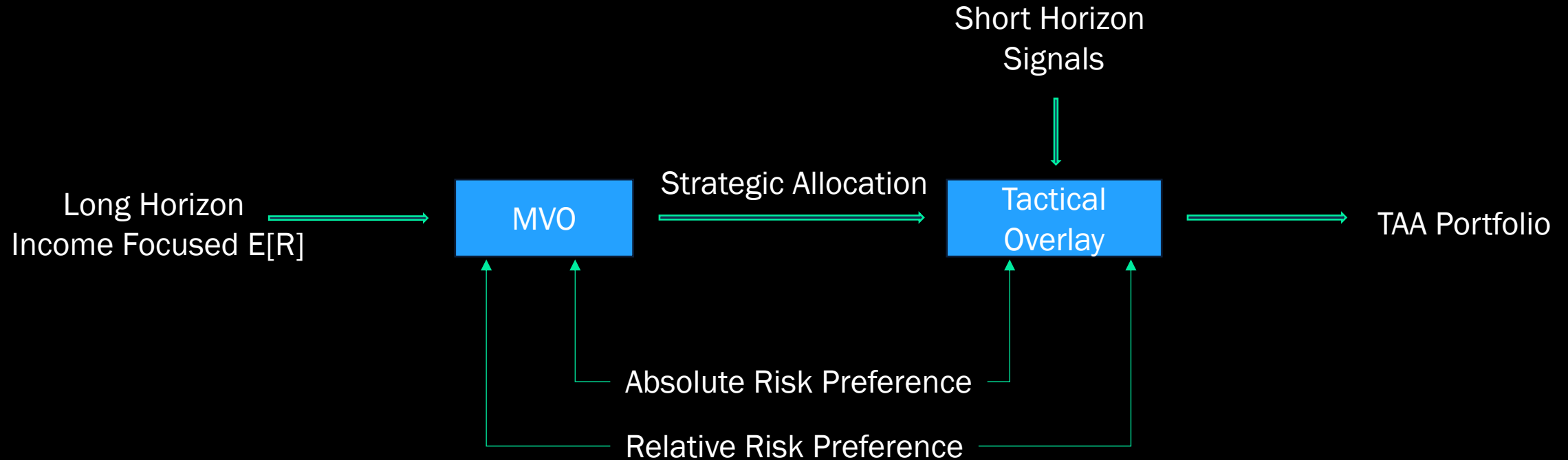
Source: Barron's Penta Wealth Managers Survey, March 28, 2016.

# Capturing Competing Objectives

Wealth Preservation	"Keeping Up with the Joneses"	Income Desire	Aspirations
<ul style="list-style-type: none"><li>How do I make sure my wealth doesn't meaningfully decrease?</li></ul>	<ul style="list-style-type: none"><li>How do I make sure my neighbors don't do meaningfully better than I do?</li></ul>	<ul style="list-style-type: none"><li>How do I make sure I'm receiving meaningful cash flows from my investments?</li></ul>	<ul style="list-style-type: none"><li>How do I move to the next highest wealth cohort (e.g., "get rich")</li></ul>
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<ul style="list-style-type: none"><li>Inflationary Assets</li><li>Primary Real Estate</li><li>TIPS</li></ul>	<ul style="list-style-type: none"><li>Benchmark (e.g., 60/40)</li></ul>	<ul style="list-style-type: none"><li>Strategic Long Term Income-Focused Strategy</li></ul>	<ul style="list-style-type: none"><li>Tactical Signals</li><li>Crash Potential (carry, momentum)</li></ul>
Mixing strategies, not assets, is the way to address competing objectives			

Source: Adapted from Chhabra, Ashvin. 2005. "Beyond Markowitz: A Comprehensive Wealth Allocation Framework for Individual Investors." *Journal of Wealth Management*, vol. 7, no. 4 (Spring).

# Utilize a Common Recipe





# Broadly Diversified Set of Assets

Asset Class	Representative Index
Short Bonds/Cash	Barclays US Treasury 1-3 YR
Core Bonds	Barclays US Aggregate
Long Bonds	Barclays US Treasury Long
Global Bonds	Barclays Global Aggregate Ex-US
Municipals	Bloomberg Barclays Municipal Bond Index
Credit	Barclays US Interim Credit
HY Bonds	Barclays Corporate High Yield
EM Local	JP Morgan ELMI+ Composite
TIPS	Barclays US Treasury US TIPS
Commodities	Bloomberg Commodity Index
REITS	FTSE NAREIT All Equity REIT
US Large Stocks	S&P 500
US Small Stocks	Russell 2000
Dev-X US Stocks	MSCI EAFE
EM Stocks	MSCI Emerging Markets

Source: Research Affiliates, LLC. 2019.

# Portfolio Strategies/Sleeves

Wealth Preservation

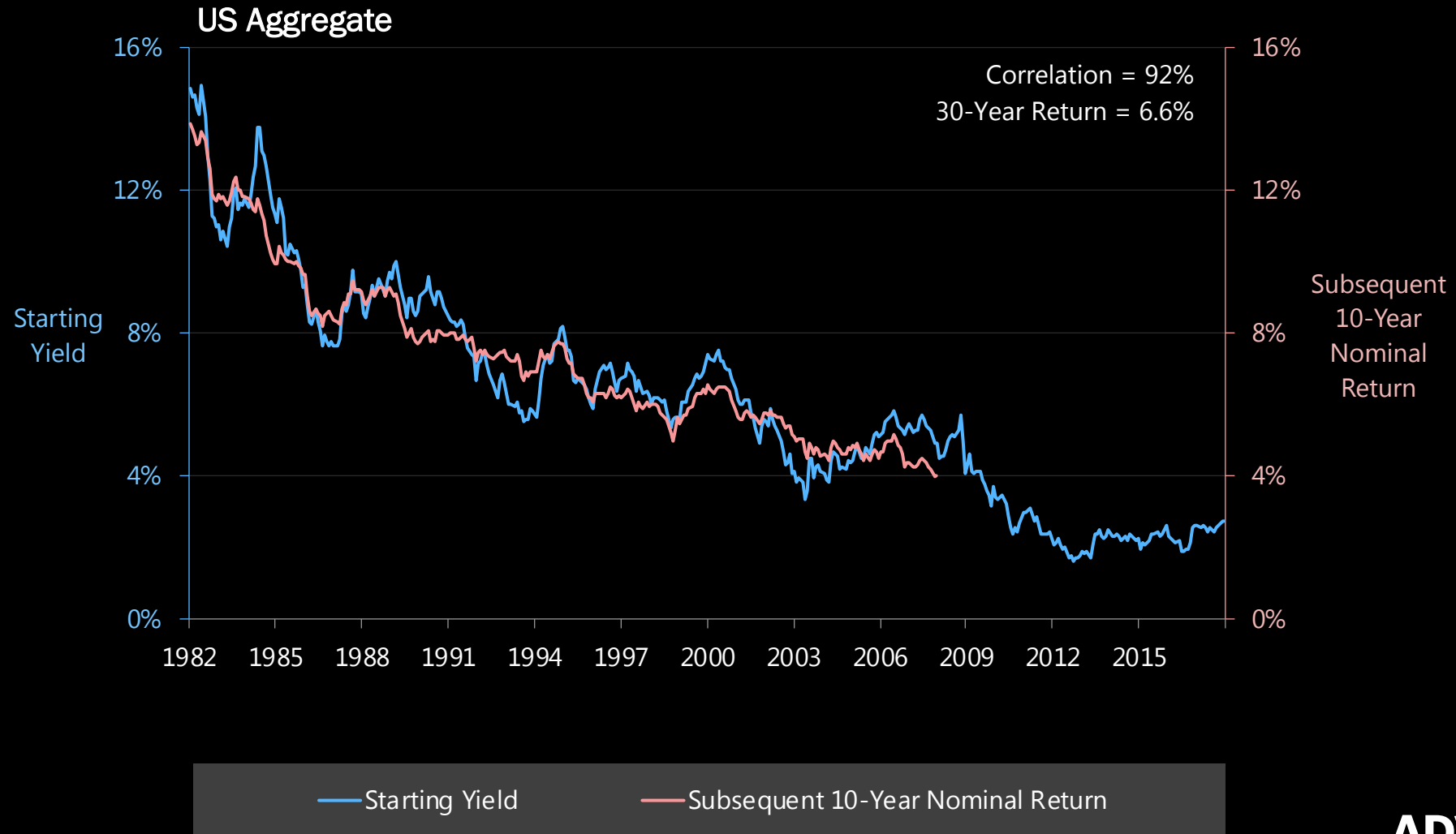
“Keeping Up  
with the Joneses”

Income Desire

Aspirations

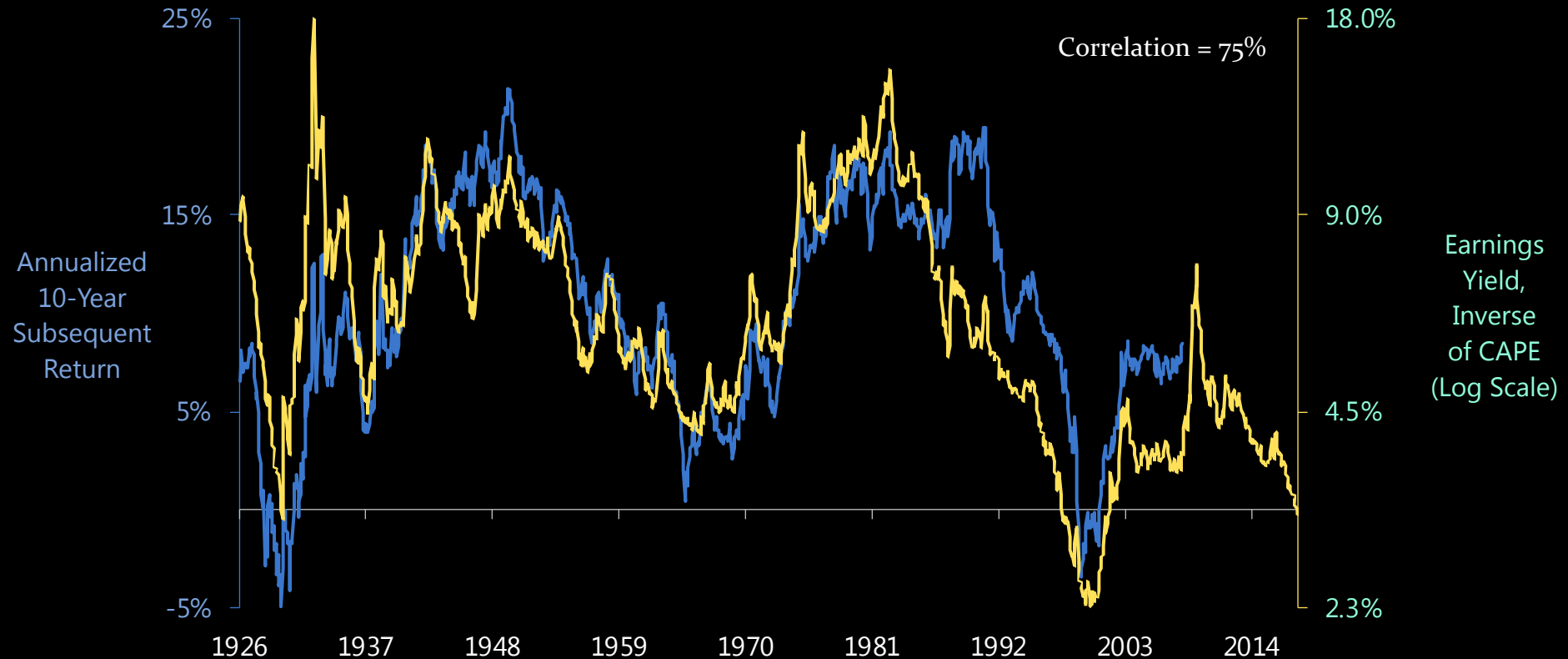
Portfolio	Period	Description
Income (strategic)	Strategic	<ul style="list-style-type: none"><li>• Portfolio created to provide structural diversification and maximize income in a risk-efficient manner</li><li>• Utilizes market observable and historical trends for current and future growth in yields</li><li>• Without any tactical opinions, this is the portfolio to buy</li></ul>

# Bonds: Future Returns Follow Starting Yields



Source: Research Affiliates, LLC, based on data from Barclays. The yield-to-worst and total returns are of the Barclays Aggregate Index. As of December 31, 2017.

# Equities: Future Returns Follow Starting Earnings Yields

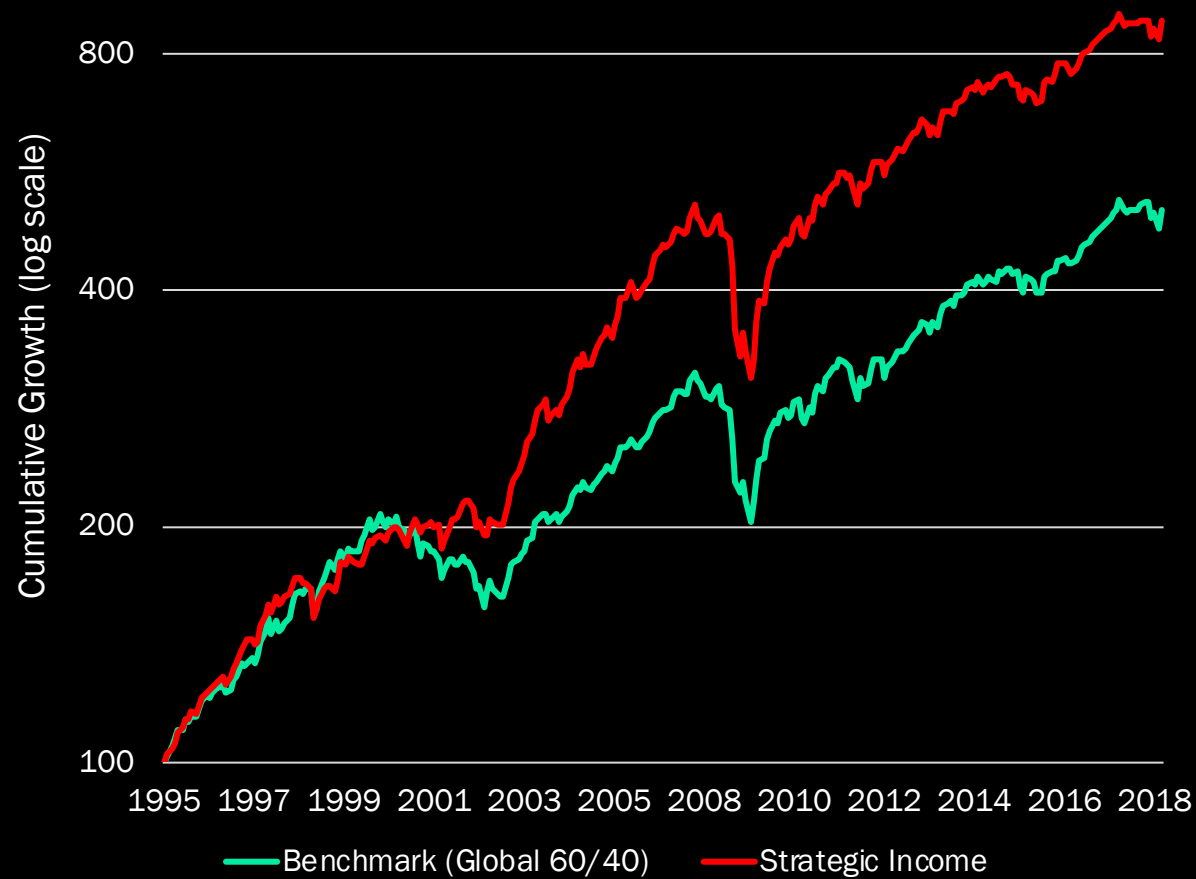


— 10-Year Subsequent Return

— Earnings Yield (Inverse of CAPE)

Source: Research Affiliates, LLC, based on data from Bloomberg and Shiller. The index and inception date is the S&P 500 Index (January 1926). Earnings yield is computed as the inverse of the CAPE ratio. For more information, please visit [http://www.researchaffiliates.com/en\\_us/asset-allocation.html](http://www.researchaffiliates.com/en_us/asset-allocation.html). As of December 31, 2017.

# Strategic Income Portfolio



	Average Annual Return	Volatility
Strategic Income	6.6%	10.0%
Benchmark	4.8%	9.1%

# Tactical Portfolio Strategies/Sleeves

Wealth Preservation

“Keeping Up with Joneses”

Income Desire

Aspirations

## Portfolio

## Description

### Carry

- Assume prices are constant over time
- Overweight = Higher yields, Underweight = Lower yields

### Value

- Assume cheap assets (based on fundamentals) will revert
- Overweight = Cheaper assets, Underweight = More expensive

### Reversal

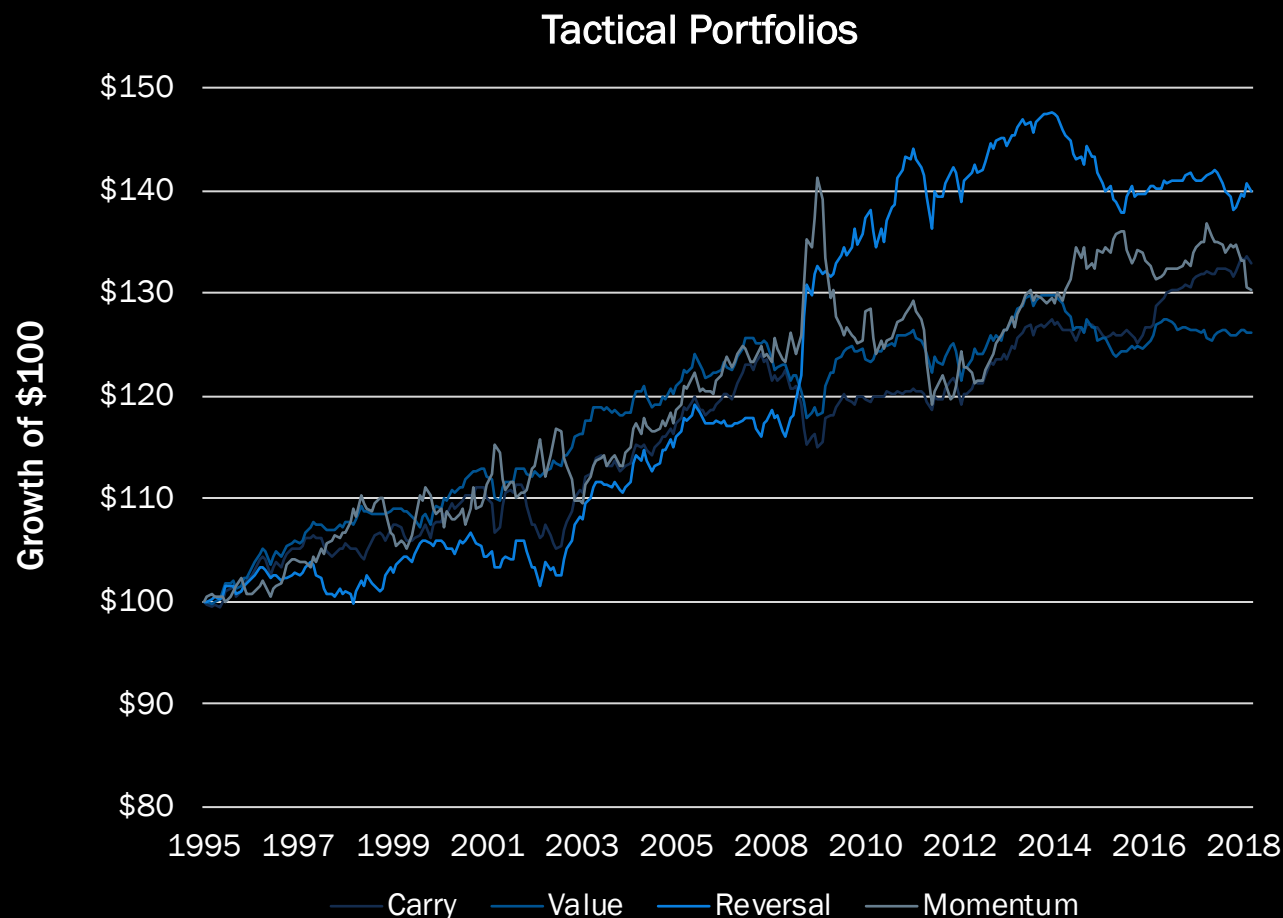
- Assume cheap asserts (based on return) will revert
- Overweight = Cheaper assets, Underweight = More expensive

### Momentum

- Assume trends in returns continue
- Overweight = Better performing assets, Underweight = Worse performers

Signals to Build Portfolios Based on Market Information – No Forecasting!

# Tactical Portfolios' Return



Source: Research Affiliates, LLC. 2019.

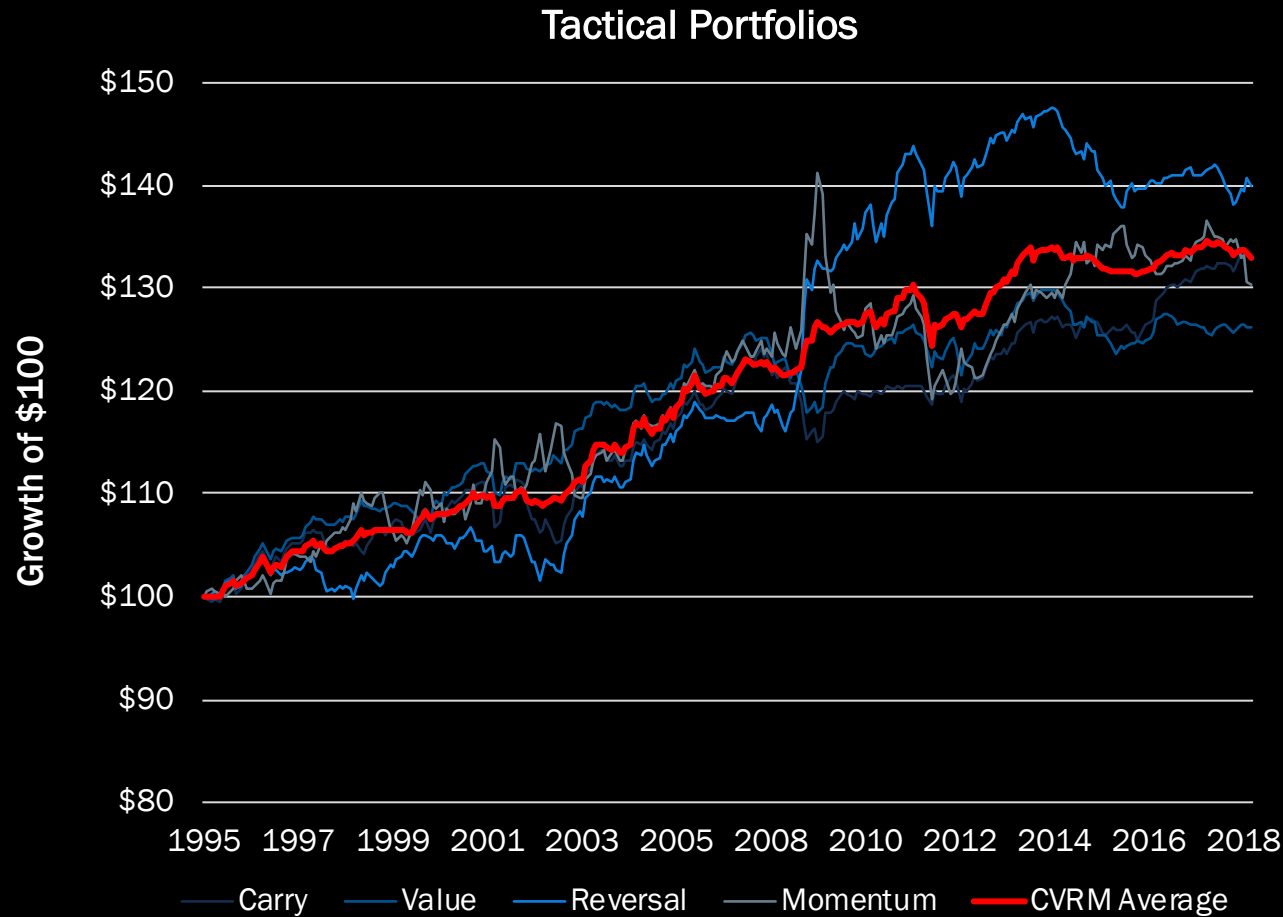
# Tactical Portfolios' Return

	Average Annual Return	Volatility	Sharpe Ratio	Turnover
Carry	1.2%	2.1%	0.6	28.1%
Value	1.0%	1.9%	0.5	27.7%
Reversal	1.4%	2.7%	0.5	22.8%
Momentum	1.2%	3.6%	0.3	70.4%

Source: Research Affiliates, LLC. 2019.



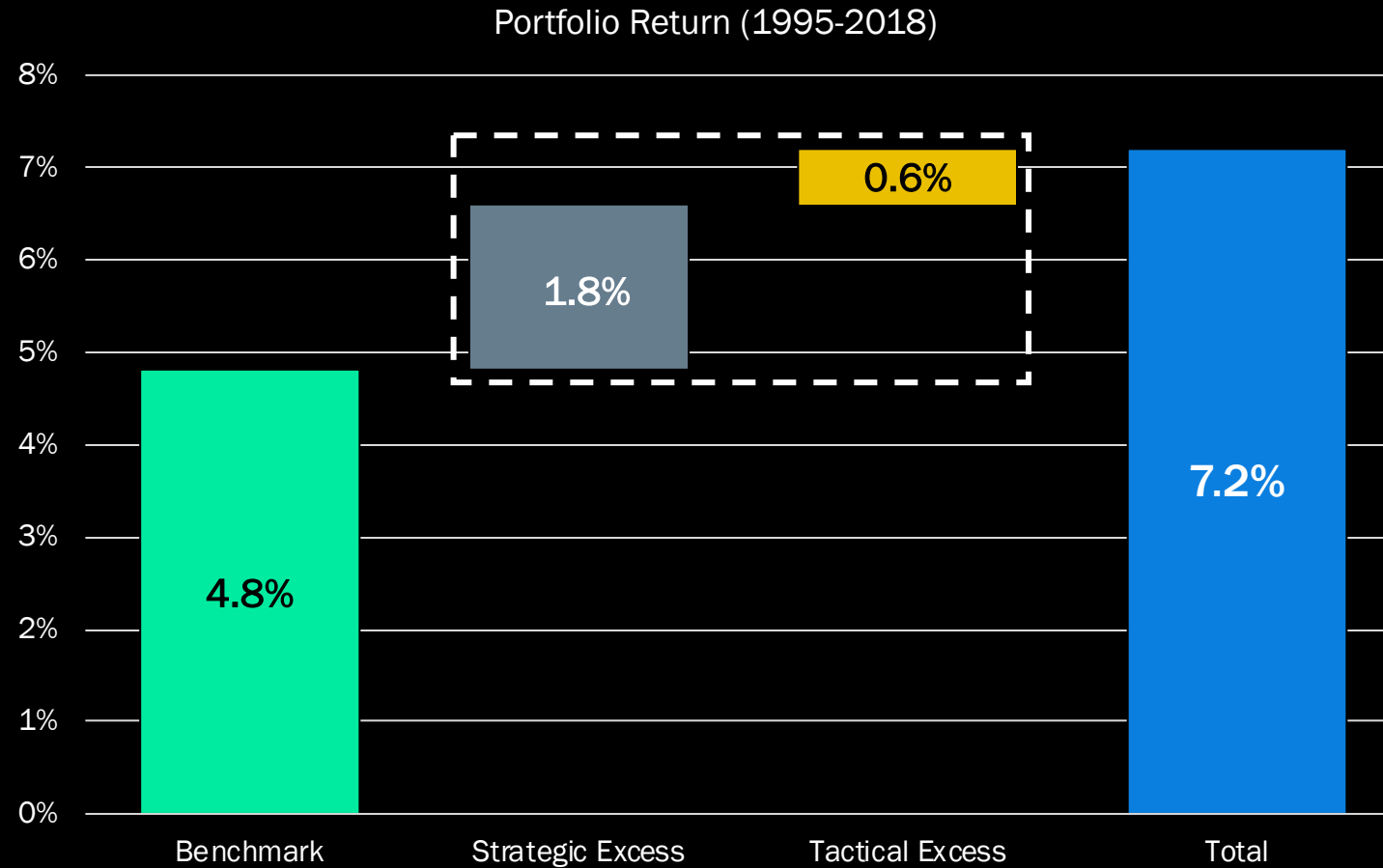
# Aggregate Tactical Portfolios' Return



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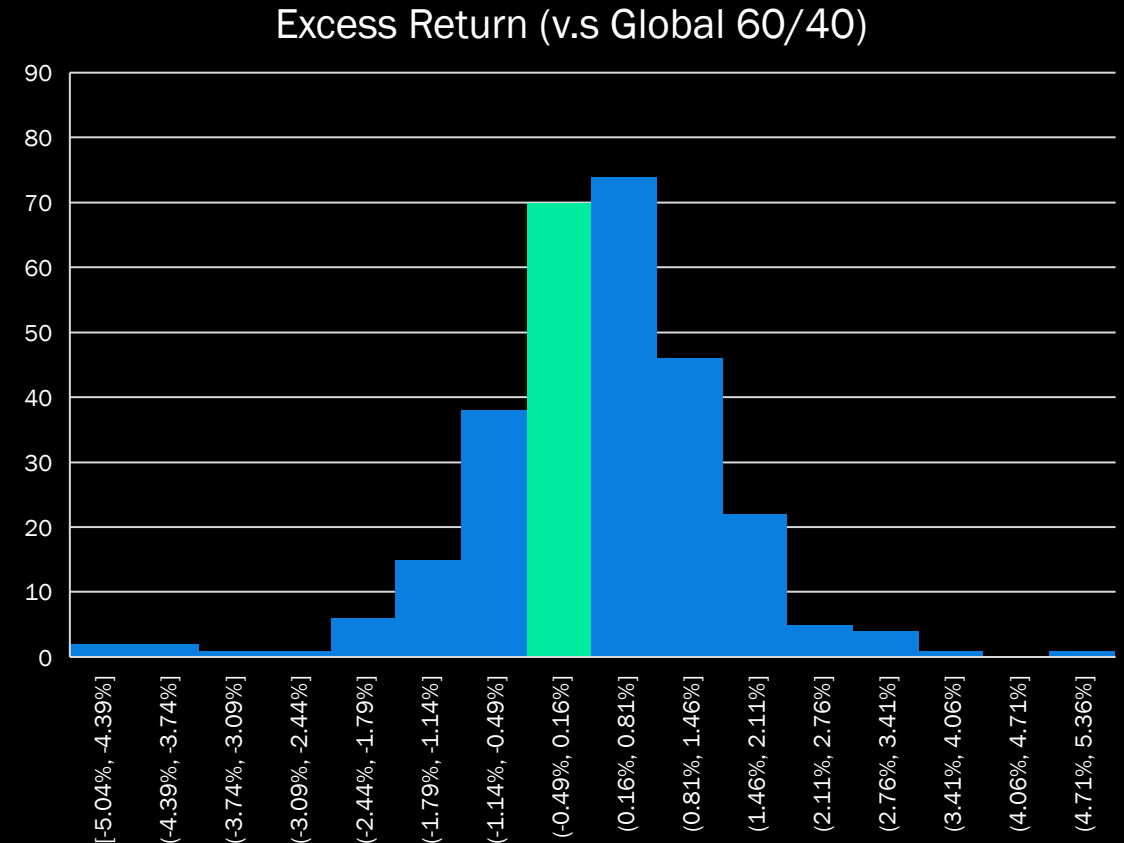
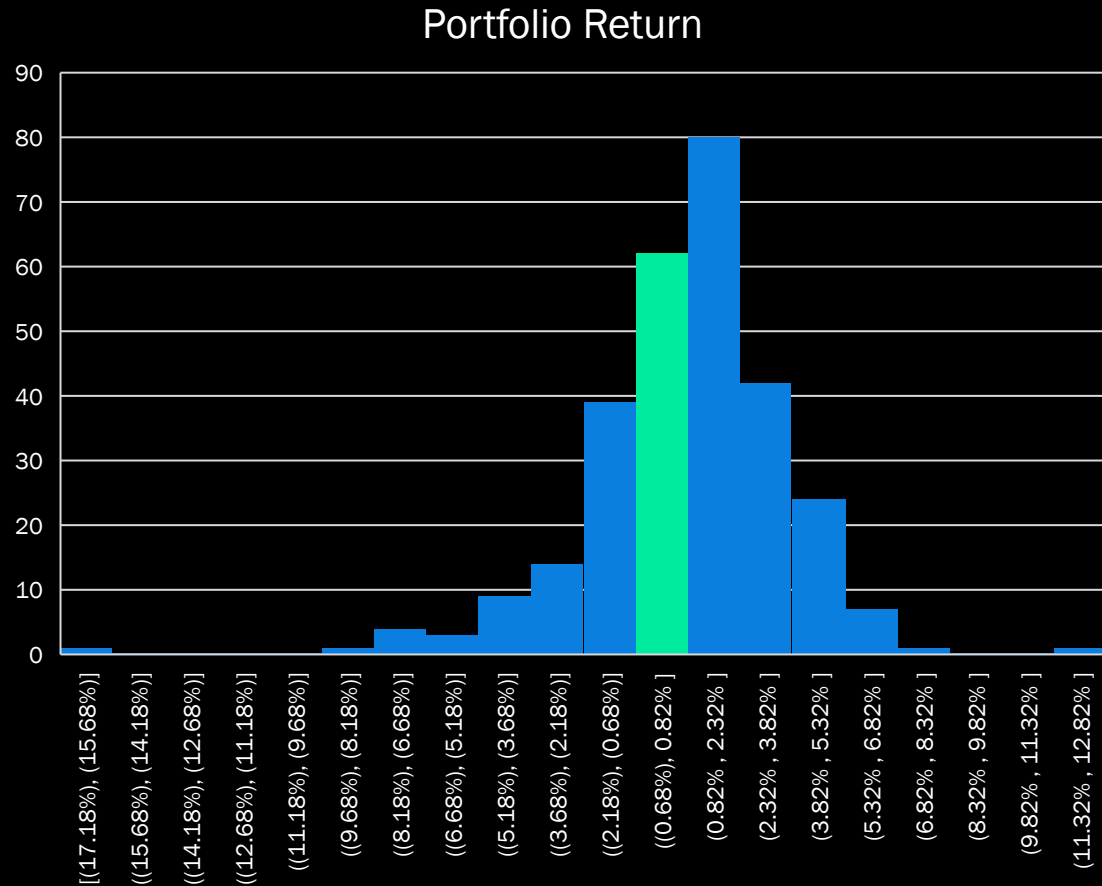
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Momentum	1.2%	3.6%	0.3	70.4%
Average	1.2%	1.5%	0.8	25.7%

# Putting It All Together



Source: Research Affiliates, LLC. 2019.

# Approach Is Not Without Risk



Source: Research Affiliates, LLC. 2019. Data 1995-2018.

# Returns Tie to Objectives

09/2008–09/2010

12/2009–12/2011

Excess Return	{	Total Portfolio Return	19.6%	17.8%
		“Keeping with Joneses” (Benchmark)	14.4%	8.3%
		Income Desire	1.8%	10.7%
		Aspirational	3.4%	-1.2%
		Return of S&P 500	-6.5%	19.8%

# Additional Considerations

- Investible Products for Each Asset Class
  - Liquid, sizeable, and cost efficient
  - Broad holdings
- Transaction Costs
- Potential Tax Efficiencies
  - “Tactical and Tax Aware”<sup>1</sup>

<sup>1</sup>Aked, Michael, Robert Arnott, Paul Bouchey, Tianchuan Li, and Omid Shakernia. 2018. “Tactical and Tax Aware GTAA.” *Journal of Portfolio Management*, vol. 45, no. 2 (Multi-Asset Special Issue 2019):23-37; DOI: <https://doi.org/10.3905/jpm.2018.45.2.023>

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