Ideas and Insights for Wealth Managers

APRIL 2012

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Abandoning Buy-And-Hold for Tactical

The balanced strategies blend stocks, bonds and cash in ways that Morningstar categorizes as aggressive, moderate or conservative. Portfolios with 90% or more stocks were aggressive; 50% to 70% in stocks were moderate and 20% to 50% in stocks were conservative.Lower than 20%, and the strategy is classed as fixed income. In last year's top 10 balanced SMAs, there were two types: conservative, whose bonds saw them through a difficult time in 2011, and tactical, or actively managed strategies. Those who rightly got out of equities and into bonds as the year wore on posted superior performance. Seven of the top 10 performers were tactically managed. While the entire group's median return was a mere 1.1% in 2011, the conservative crowd did best, with gains of 2.4%, ahead of the moderates which rose 0.9% and their aggressive colleagues who shed 1.5%.

Best of the shifters was Good Harbor U.S. Tactical Core. It gained 12.9% last year. It has also posted the best returns of the group over the last five years, with profits of 13.9%.

Managers Neil Peplinski and Paul Ingersoll don't invest in individual equities. Instead, they use ETFs to get broad market exposure. For stocks, they use a combination of ETFs tracking the Russell 2000, the S&P 500 and the S&P 400. When they're feeling defensive, they move to a Treasury-based ETF. Last year, they were in equities for the first half of the year, and were defensive in the second half. They missed the August sell-off entirely, with 100% of the portfolio in Treasuries. Peplinski says their strategy involves rebalancing the portfolio on a one-to-three month basis. Before 2008, the managers had a hard time convincing investors to go tactical, even though their

Neil Peplinski (left) with Paul Ingersoll (right)

portfolio performed as it should have from 2003 to 2007. The strategy did well, but so did the broader market, and advisors weren't interested.

"What really gave us the opportunity to showcase what the model was intended to do was using tactical moves to avoid the downturn of 2008, and be in a position to reengage in 2009," Ingersoll says. Three years ago, advisors "had such a firm grip on the idea that diversification comes with a buy-and-hold portfolio, that we got less of a hearing," he adds. "But the world has changed quite a bit in three years. There has been a revolution in the way investors have been thinking." Now advisors, who make up the majority of their clients, come to them specifically requesting tactical management. "They say, 'I used to be buy-and-hold, but this is the second time this has happened to me in a decade. I'm leaving it behind; it hasn't worked,'" Ingersoll says. ows

TOP 10 DOMESTIC BALANCED

1 YEAR DATA

TOP 10 MANAGERS	CATEGORY	1-YR GROSS RETURNS	1-YR NET RETURNS
Good Harbor U.S. tactical Core	**US Sa Moderate allocation**	**14.37**	**12.91**
CMG Opportunistic allasset Strategy	US SA Moderate allocation	12.86	10.15
Invesco Premia Plus	US SA Conservative allocation	11.81	11.32
Ken roberts Diversified Income Strategy	US SA Moderate allocation	10.85	10.40
Nuveen Intelligent risk–Conservative	US SA Conservative allocation	10.73	9.77
Caprin Managed tactical Blend etF	US SA Conservative allocation	10.72	10.46
SignalPoint CU Income Plus	US SA Conservative allocation	9.75	8.65
Fayez Sarofim & Co. Balanced	US SA Moderate allocation	9.04	8.62
Dorsey Wright Sys reltv Strength Cons	US SA Moderate allocation	8.17	6.76
Westwood Mgmt Corp. Inc Opportunity	US SA Conservative allocation	8.03	7.37

Source: Morningstar

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