TAA why does it work, what is the logic?

Rob Brown, PhD, CFA

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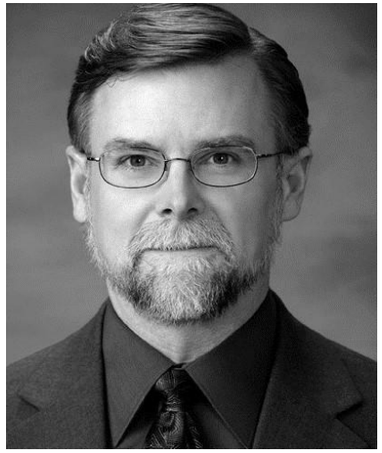

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Tactical asset allocation

A sound, robust investment process and approach

Yes . . . honest reliable logic and adequate justification underlies and defines this strategy

Identifying why it should work

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- Not . . . does it work . . . instead, why should it work
- The logic is not
  - I can predict the future
  - I have a crystal ball
  - I can time the markets
- The logic is
  - Markets trend
  - Winners repeat
  - Losers repeat
  - So build your portfolio by overweighting recent winners and underweighting recent losers

All important distinction

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- TAA - Tactical Asset Allocation
- Global Macro
- TAA
  - Rests on a rock solid foundation
  - Markets trend, all markets trend, they always have trended, they trend today, and will continue to trend in the future
- Global Macro
  - Rest on a weak and wobbly foundation
  - I have a crystal ball
  - With that crystal ball, I can predict the future

Unfortunate characterization

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What Is Trend Investing and How Do You Do It?

Javier Simon, CEPF® | JAN 15, 2020

Trend investing is the process of putting your money in stocks, industries or markets expected to boom consistently in the future. The idea is to ride the trend up until it's the right time to jump off and exit that part of the market with major profits. But before you go

About Our Investing Exp

Barbara Friedbe

An author, teacher &
with nearly two deca
as an investment por
and chief financial of

Unfortunate comparison to “technical analysis”

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Trending markets are of primary interest in technical analysis. Technical analysts believe that trending markets occur with some degree of regularity and predictability. The ability to correctly discern these trends can have a substantial impact on investment returns.

Identifying a Trending Market

Traders use various patterns and trend lines to identify trending market directions and trading signals for a single security. A trending market can be classified as such for either the short-, mid- or long-term. Several trading channels can be drawn to follow a security’s trend. Some of the most common trading channels include the following:

TAA mischaracterization

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INVESTING › PORTFOLIO MANAGEMENT

Tactical Asset Allocation (TAA)

By ADAM BARONE | Reviewed By GORDON SCOTT | Updated Oct 20, 2020

What Is Tactical Asset Allocation (TAA)?

Tactical asset allocation is an active management portfolio strategy that shifts the percentage of assets held in various categories to take advantage of market pricing anomalies or strong market sectors. This strategy allows portfolio managers to create extra value by taking advantage of certain situations in the marketplace. It is a moderately active strategy since managers return to the portfolio's original asset mix once reaching the desired short-term profits.

TAA mischaracterization

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The Usefulness of Tactical Asset Allocation

Tactical asset allocation is the process of taking an active stance on the strategic asset allocation itself and adjusting long-term target weights for a short period to capitalize on the market or economic opportunities. For example, assume that data suggests that there will be a substantial increase in demand for commodities over the next 18 months. It may be prudent for an investor to shift more capital into that asset class to take advantage of the opportunity. While the portfolio's strategic allocation will remain the same, the tactical allocation may then become:

- Cash = 5%
- Bonds = 35%
- Stocks = 45%
- Commodities = 15%

The curse of Global Macro

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Logic supported by voluminous independent research

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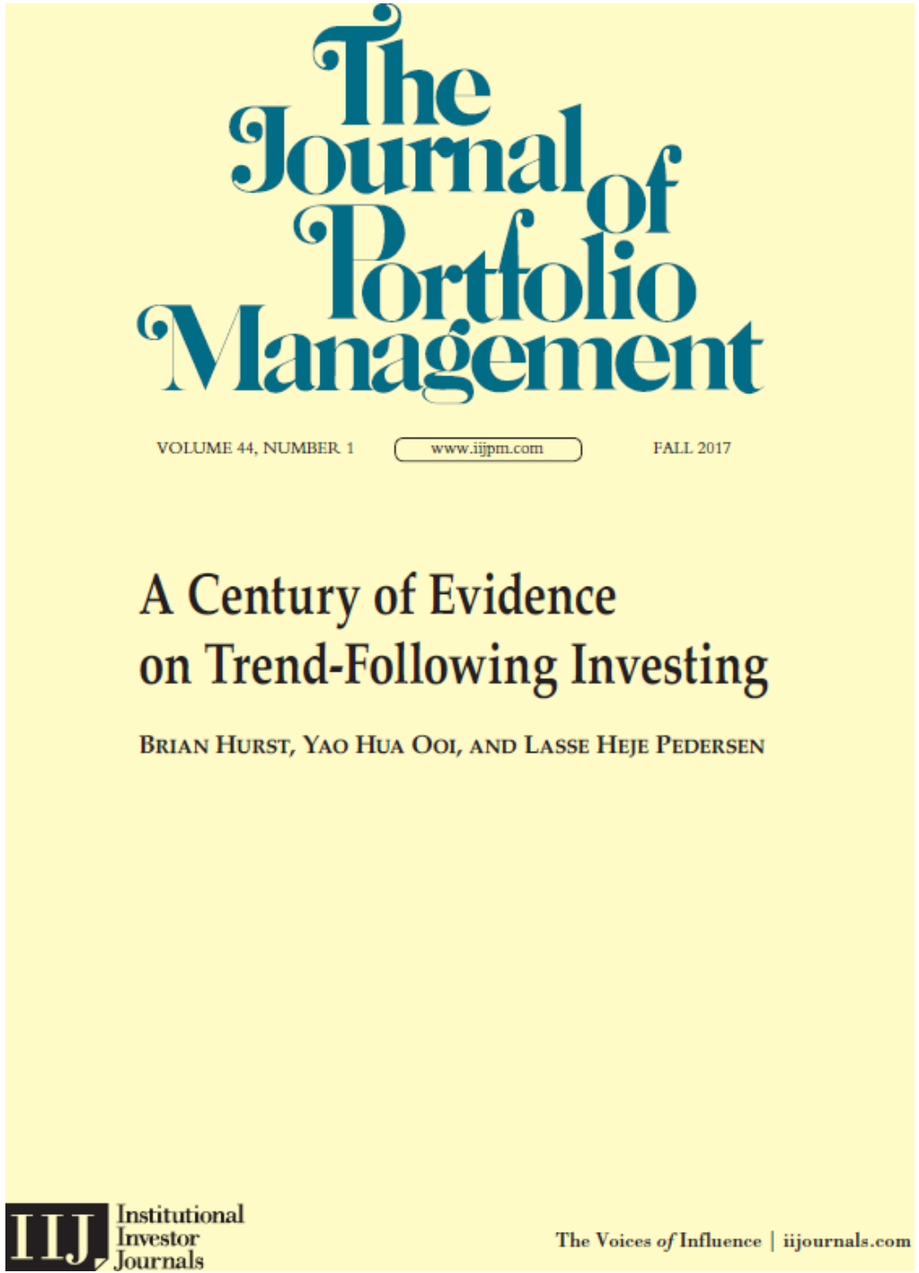

The Journal of Portfolio Management

VOLUME 44, NUMBER 1 www.iijpm.com FALL 2017

A Century of Evidence on Trend-Following Investing

BRIAN HURST, YAO HUA OOI, AND LASSE HEJE PEDERSEN

IIJ Institutional Investor Journals

The Voices *of* Influence | iijournals.com

Logic supported by voluminous independent research

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CONCLUSION

Trend-following investing has performed well in each decade for more than a century, as far back as we can get reliable return data for several markets. Our analysis provides significant out-of-sample evidence across markets and asset classes beyond the substantial

FALL 2017

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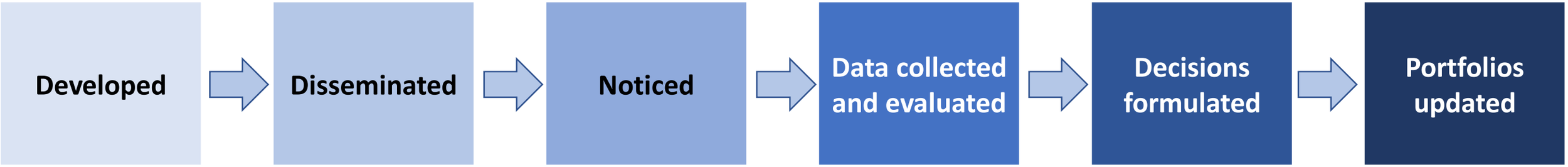
FALL 2017

Why do markets trend

- Why markets trend - winners keep winning and losers keep losing
- Investment markets trend because it takes time for new information to first develop, next be disseminated and analyzed, and finally acted upon and consequently, reflected in market prices
- The length of time for this entire process varies considerably from one investor to the next and is therefore spread over many months or more



Does TAA protect against bear markets?

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Can Tactical Asset Allocation Work?

Three experts discuss whether tactical strategies can be a worthwhile, and if so, under what circumstances.

Jeffrey Ptak, CFA

Jan 3, 2016

Mentioned: Cisco Systems Inc (CSCO), Intel Corp (INTC), Microsoft Corp (MSFT)

Tactical asset-allocation funds enjoyed a burst of popularity after the financial crisis. Proponents argued that tactical allocation can be valuable in bear markets or amid heavy volatility given their flexibility. Tactical managers typically eschew investing in a static mix of investments like a manager of a traditional balanced fund would. Instead, they rapidly shift between asset classes, often in following macroeconomic or trend-following strategies.

Incorrect conclusion based on those who attempt to predict the future

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Our research has found, however, that tactical funds generally have failed to deliver better risk-adjusted returns, or downside protection, than do traditional balanced index portfolios. Granted, the recent bull market for U.S. equities

Understand the history and behavior of bear markets

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History of BEAR markets for the S&P 500 in inflation-adjusted terms

	Cumulative percentage loss, unannualized	Duration in months	Start date	End date	Volatility, annualized standard deviation of monthly returns	Percentage of monthly returns that were negative
	-30	15	8/31/1853	11/30/1854	26.62	73
	-31	10	12/31/1856	10/31/1857	18.26	90
	-35	8	7/31/1864	3/31/1865	30.35	63
	-32	15	3/31/1876	6/30/1877	7.55	93
	-37	14	9/30/1906	11/30/1907	13.28	86
	-27	24	10/31/1912	10/31/1914	10.80	63
	-48	49	11/30/1916	12/31/1920	15.72	59
	-79	33	8/31/1929	5/31/1932	36.76	64
	-50	13	2/28/1937	3/31/1938	30.33	77
	-39	31	9/30/1939	4/30/1942	19.02	58
	-37	21	5/31/1946	2/28/1948	14.11	71
	-35	19	11/30/1968	6/30/1970	14.37	74
	-52	21	12/31/1972	9/30/1974	14.82	86
	-30	3	8/31/1987	11/30/1987	27.66	100
	-47	25	8/31/2000	9/30/2002	17.43	64
	-52	16	10/31/2007	2/28/2009	18.58	75
	?	?	7/31/2020	?	?	?
Median BEAR market	**-37.2**	**17.5**			**17.84**	**74**
Mean BEAR market	**-41.4**	**19.8**			**19.73**	**75**

Author: Rob Brown, PhD, CFA at rob.brown@jbpadvisor.com

Statistics based on data provided by Global Financial Data, San Juan Capistrano, CA 92675 at www.globfinancial.com and are current as of the market close on August 3, 2020. Results rely on month-end S&P 500 total returns adjusted for the All Urban Consumers Not Seasonally Adjusted Consumer Price Index as provided by the U.S. Department of Labor

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indices are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results

Bull and bear markets are defined as moves of at least 20.92980% using month-end inflation-adjusted S&P 500 total returns. Ideas and concepts are for illustrative purposes only. Investment advice offered through Integrated Wealth Concepts LLC (a Registered Investment Adviser), d/b/a Integrated Financial Partners, Inc.

History of bear markets

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History of BEAR markets for the S&P 500 in inflation-adjusted terms

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Yes . . . There have been “short” bear markets

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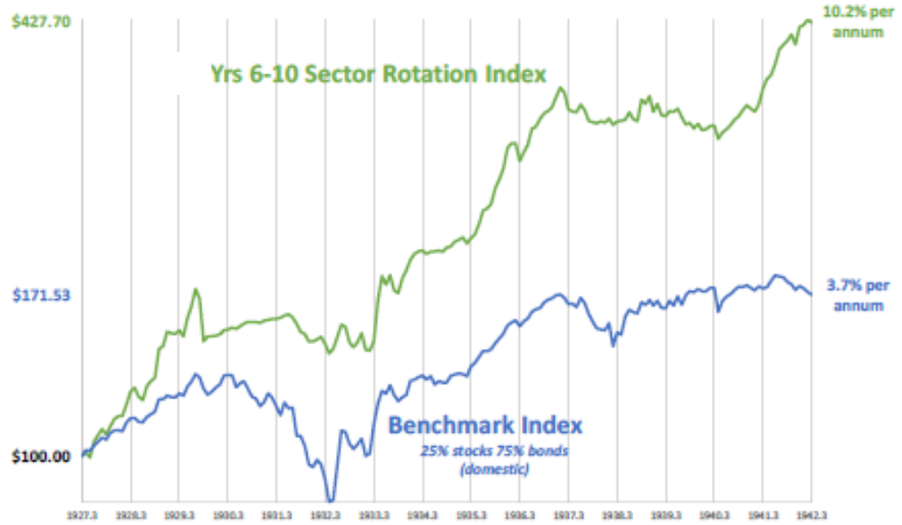
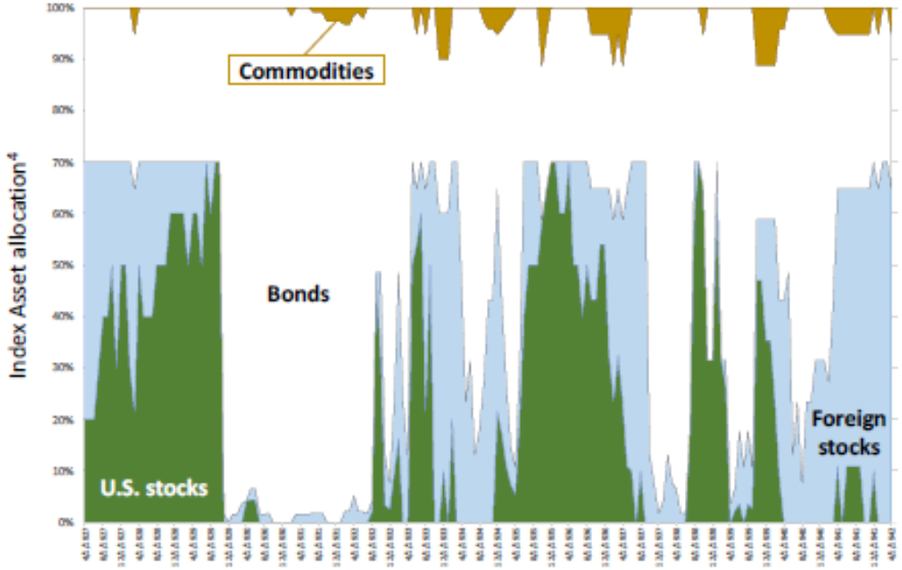
Winning during bear markets does not require a crystal ball

The fifteen years 1927-1942 was a difficult period. During this challenging time, we experienced the **Wall Street Crash of 1929**, **The Dust Bowl** starting in 1930, **the Great Depression**, the **start of World War II in 1939**, the attack on **Pearl Harbor in 1941**, the **disappearance of 11,000 of the nation's 25,000 banks**, and **unemployment rising to 25.6%.**





No need for a crystal ball

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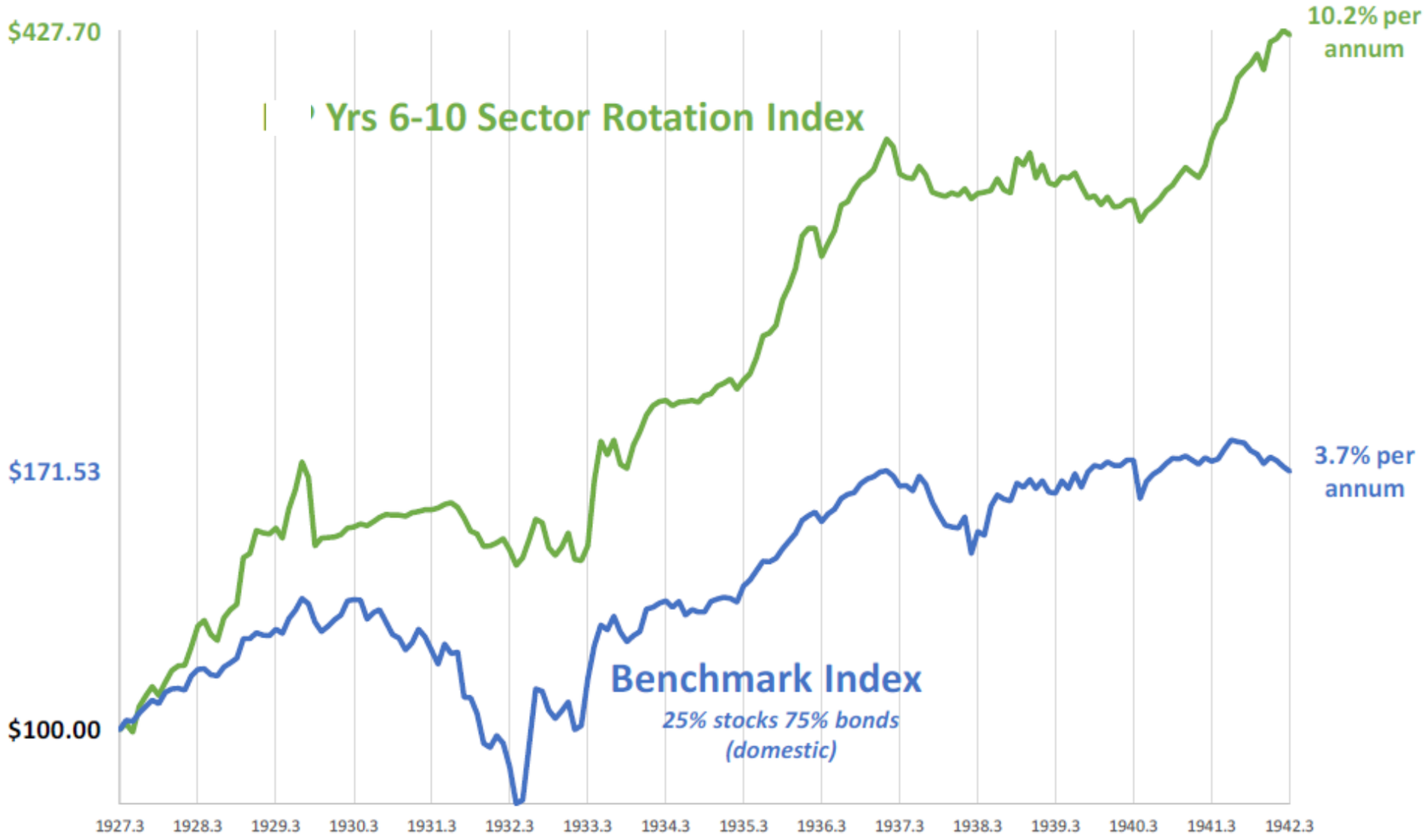

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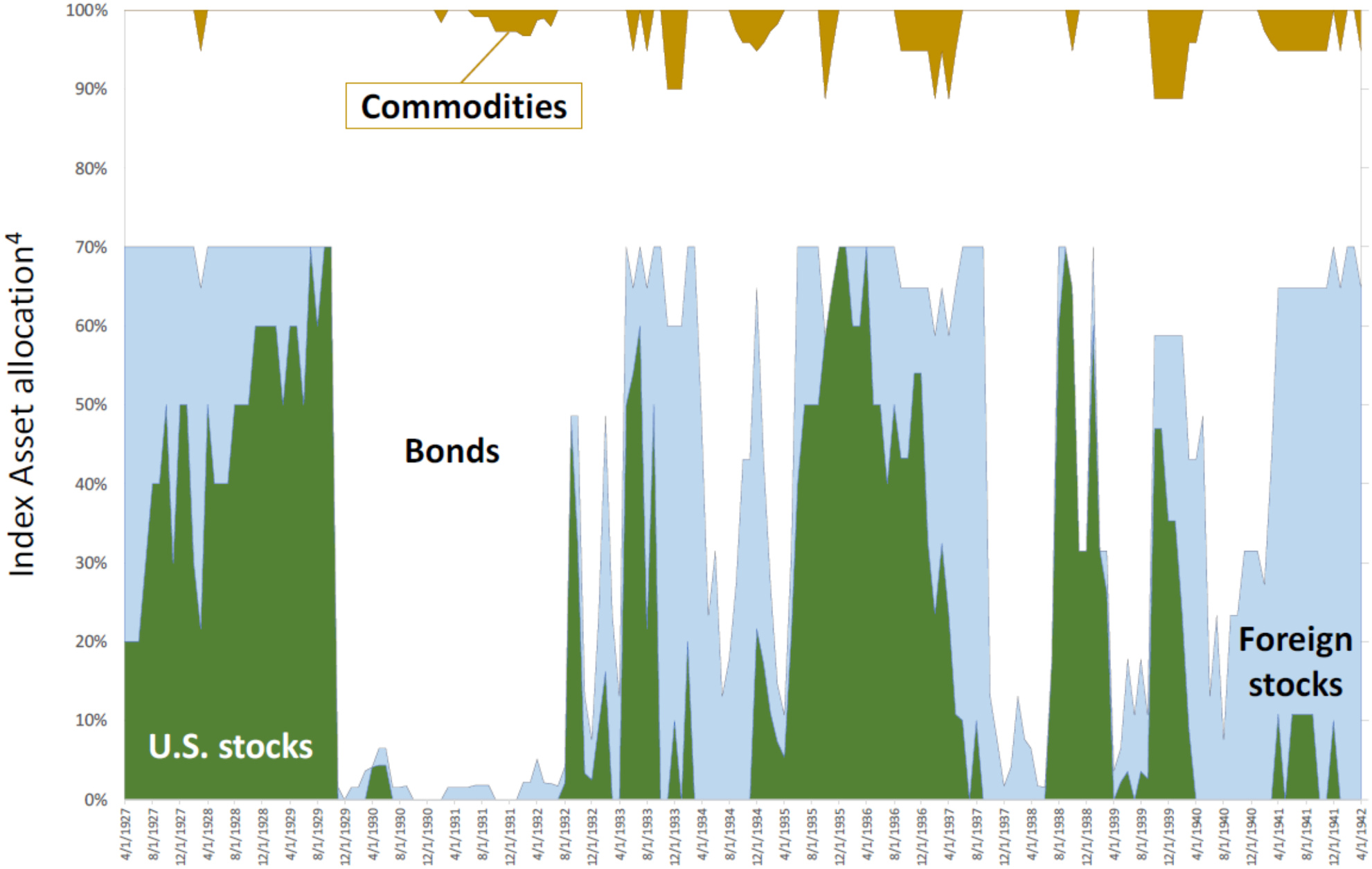
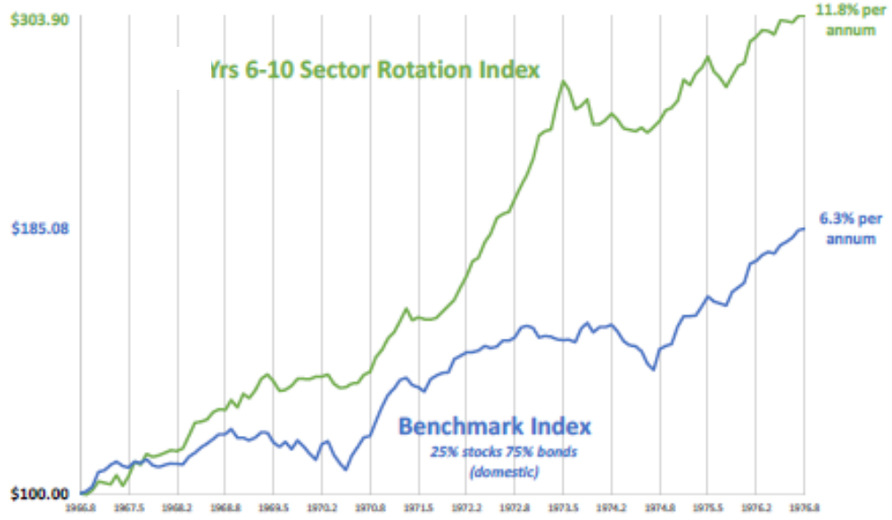
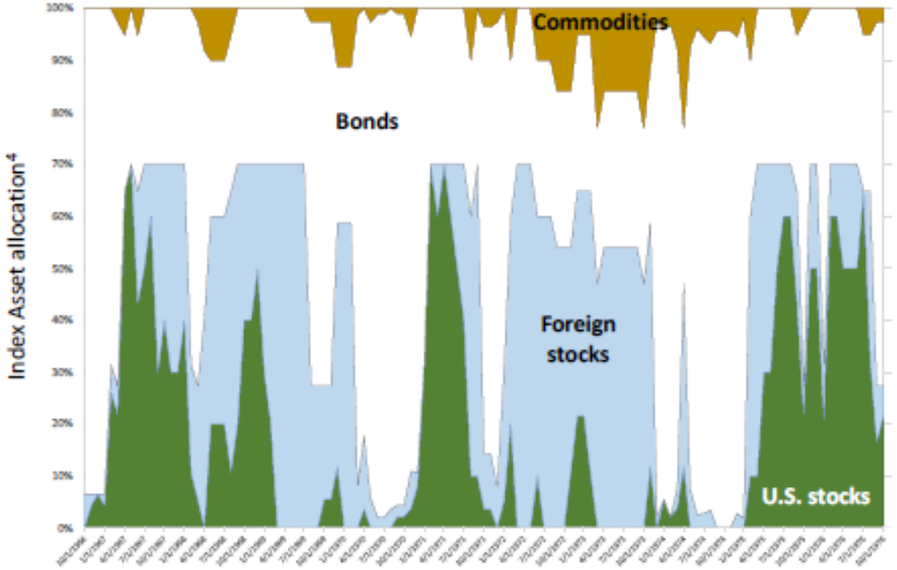


Let’s examine a second downturn

The ten years 1966-1976 was a difficult period. During this challenging time, we experienced the **Recession of 1969/70**, the **Recession of 1973/75**, the **OPEC oil embargo** to the U.S. when oil prices jumped +350%, the **1973 Arab-Israeli War**, **Race Riots** in most major cities, year-over-year **inflation hitting 12.3%**, and **unemployment rising to 9.0%.**





No need for a crystal ball

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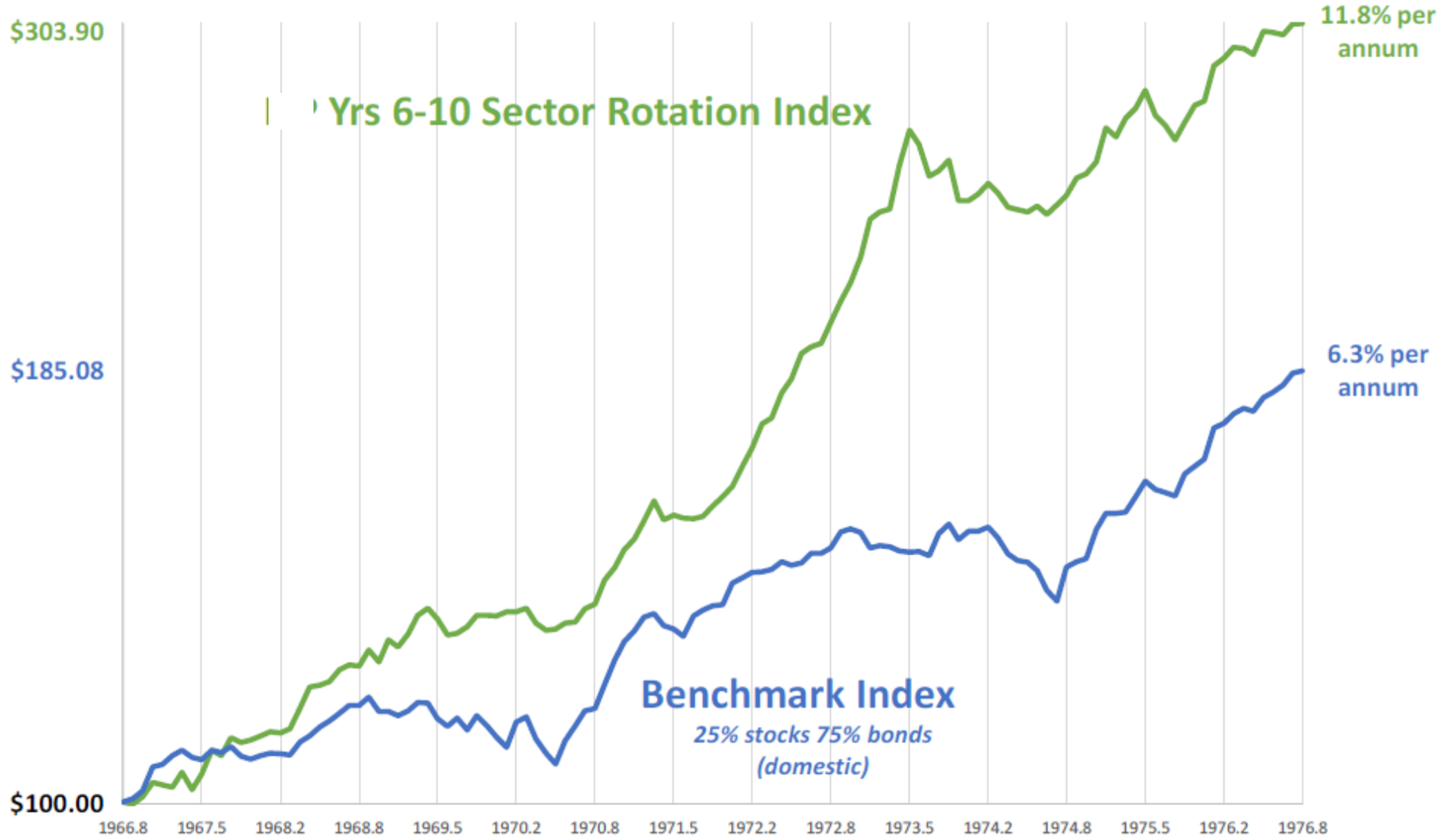

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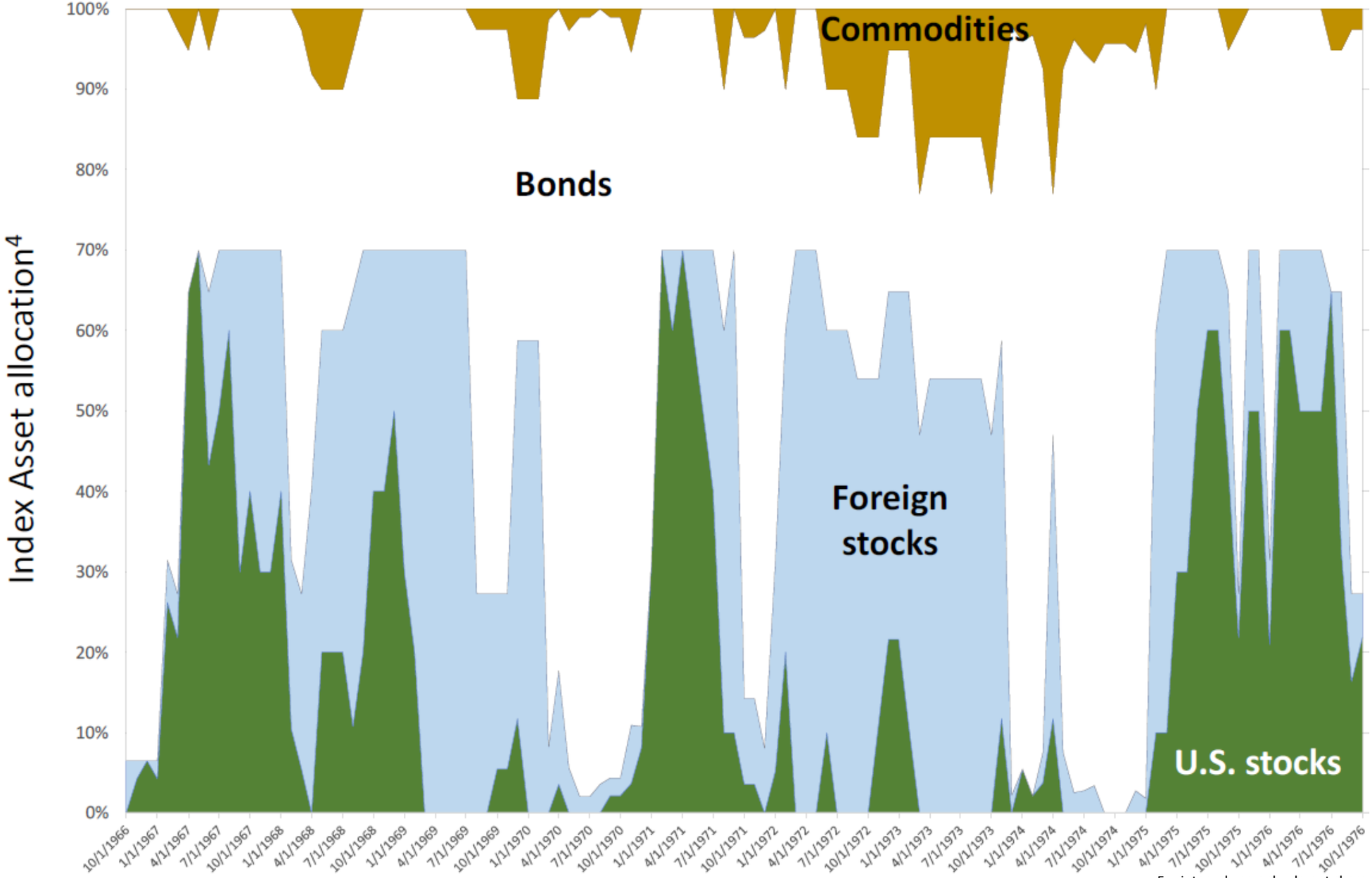

Recap

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- Draw a distinction between Global Macro (those who attempt to predict the future) and TAA (those who ride already existing trends)
- Empirical evidence strongly supports that observations that all markets trend and always have
- Clear logic explains this fundamental behavioral aspect of the market
- Bear markets last long enough, that TAA is expected to deliver remarkably attractive risk mitigation during bear markets (provided they avoid global market)

- Bottom Line - Tactical Asset Allocation is based on clear appealing logic and has delivered attractive results for many decades

BUT . . . avoid TAA managers who claim they can predict the future

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TAA, does it solve for the fact that bonds can't work with interest rates this low?

Friday, Dec 18th at 11:00 a.m. EASTERN time

For more information contact

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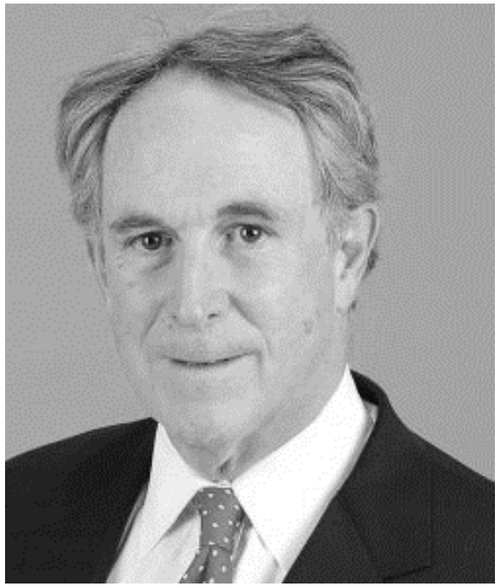

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

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