

MARKET MICROSCOPE: “Tactical” Often Means Just Plain Wrong

Many investors are drawn to the idea of being “tactical.” They believe they can successfully time the market and improve long-term performance by strategically shifting their portfolio’s asset allocation between asset classes. However, if those investors look at how the professional tactical allocators of Morningstar’s Tactical Allocation category have fared, they might change their minds.

TACTICAL ALLOCATION CATEGORY AVERAGE EXPOSURES (2/29/16)

Asset Classes

Stocks	46.4%
US Stocks	35.1%
Non-US Stocks	11.3%
Bonds	24.5%
Cash	26.4%
Other	2.8%

Market Cap For Stocks

Large Cap	72.0%
Mid Cap	18.8%
Small Cap	9.2%

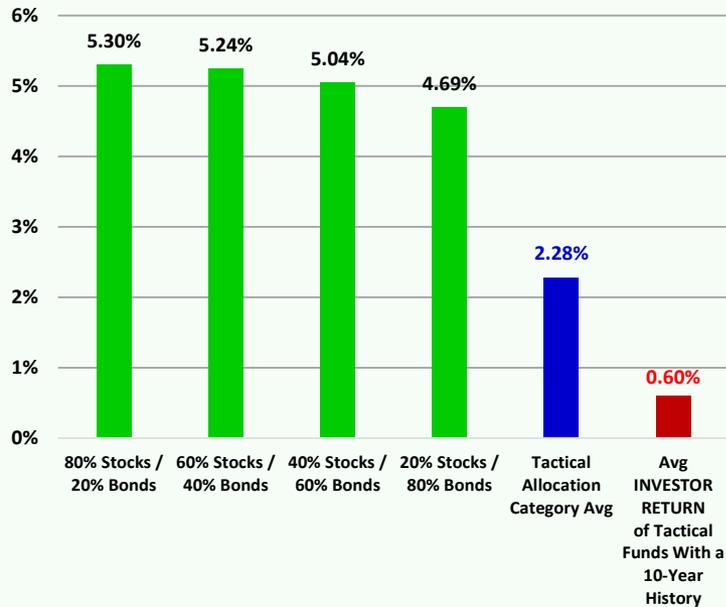
Geographic Exposure For Stocks

US	75.9%
Non-US Developed	22.3%
Emerging Markets	1.8%

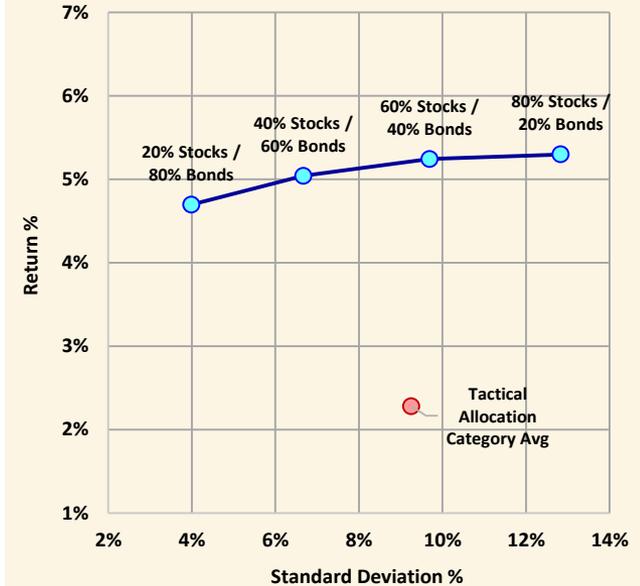
Bond Sectors

Government	19.9%
Corporate	21.5%
Securitized	4.6%
Municipal	0.2%
Cash	45.7%
Other	8.2%

10-Year Return: March 2006-February 2016



10-Year Risk-Reward: March 2006 - February 2016



The stock portion of each balanced portfolio is composed of 75% the Russell 3000 Index and 25% the MSCI EAFE Index. Bonds are represented by the Barclays Intermediate Gov/Credit Index.

	2006 (Mar-Dec)	2007	2008	2009	2010	2011	2012	2013	2014	2015
Tactical Allocation Category Average	7.44%	6.30%	-24.89%	19.57%	12.43%	-2.92%	9.28%	8.47%	2.74%	-5.87%
60% Stocks / 40% Bonds Portfolio	9.78%	7.03%	-22.91%	19.90%	11.68%	1.45%	11.64%	17.41%	6.06%	0.69%

Over the past 10 years, the Tactical Allocation category significantly underperformed balanced portfolios that maintained a static asset allocation and rebalanced back to their target allocation on a quarterly basis. Even a portfolio with as little as 20% in stocks beat the Tactical category average by over 2% annualized. The average Tactical mutual fund also failed to reduce volatility in any noticeable way, and would have trailed the 60/40 mix in every calendar year except 2010.

These funds performed even worse in terms of the actual experience of real investors. Morningstar’s “Investor Return” calculates a fund’s return while accounting for asset flows into and out of the fund. The average Investor Return for a Tactical fund with a 10-year record was a mere 0.60%!