Core satellite asset allocation

A complement to your “buy-and-hold” strategy

You may find that a particular investment philosophy can work well over time — and yet, during periods of market turmoil, you might be able to take advantage of opportunities by following an approach that complements — but doesn’t replace — your tried-and-true strategy.

Such may be the case today. Specifically, some investors who have been following a “strategic asset allocation” strategy are now complementing it with a “tactical allocation” approach.

If you’re not familiar with these concepts, here’s a quick primer:

When you follow a strategic asset allocation technique, you “buy-and-hold” quality investments, then periodically rebalance your portfolio by selling some of the investments in the higher performing asset classes and purchasing others, from lower performing asset groups. In this way, you’ll continually bring your portfolio back to its original asset allocation, which is based on your investment preferences, risk tolerance and other factors.

While strategic asset allocation responds to market forces after the fact, “tactical allocation” attempts to anticipate these forces. So, if you were to follow a tactical approach, you’d make investment decisions based on macroeconomic and leading indicators for various markets, sectors and asset classes. The effects of globalization, market volatility and rapid economic changes over recent years have created renewed interest in this form of asset allocation.

To take advantage of short-term tactical opportunities while not disrupting your long-term strategic allocation, you can structure your investment holdings into a “core” portfolio and a “satellite” portfolio. Here’s a brief overview of what these portfolios might look like:

- **Core portfolio —** Your core portfolio, which would likely comprise the bulk of your holdings, is the “strategic” segment of your investments. In other words, this portfolio consists of the investment mix that’s based on your long-term goals, risk tolerance, time horizon and other elements. You’ll generally keep your core portfolio intact in all investment climates.
- **Satellite portfolio —** As its name suggests, your satellite portfolio will not be as large as your core portfolio — but that doesn’t mean it’s not as important. A satellite portfolio doesn’t necessarily consist only of short-term investments, but it gives you the opportunity to make short-term investment decisions driven by fundamental, technical and other quantitative economic indicators. Consequently, you’ll have the flexibility to move in and out of investments based on what’s happening today — without sacrificing your basic investment strategy, as implemented in your core portfolio, for achieving your goals of tomorrow.

This core-and-satellite strategy may or may not be appropriate for your individual needs or preferences. It is, however, an example of an innovative technique you might consider to complement a “buy-and-hold” approach. And in the investment world, as in other spheres of life, creativity and flexibility are often rewarded.

For more information on core satellite asset allocation, please contact your financial advisor.

68236-CAS (10/16)