

# Dynamic Asset Allocation Overlay

## Key points

- Intelligently re-weight exposure to asset classes
- Takes advantage of multi-year cycles of relative performance
- Based on initial client-centric asset class exposure

## Overview

In general, there are two ways to approach how client funds are distributed across asset classes. One method, known as static, is passive, the other, known as dynamic, is active.

The **static** approach calls for re-balancing portfolios back to starting asset class weightings on a fixed-frequency basis, meaning at pre-set time intervals such as quarterly or annually; or, alternatively, on a percentage-triggering basis, meaning each time the actual weighting varies from the target weighting by a pre-specified percentage. This static approach is common. It is easy to understand and easy to implement.

The other approach to managing asset-class weightings is **dynamic**. The dynamic approach calls for re-weighting asset classes within a portfolio based on the anticipated *relative strength* of each asset class. SummitAlliance has developed the **Dynamic Asset Allocation Overlay™**. It is a portfolio management model based on readily available technical market data. A matrix is derived from this data, establishing a preference among competing asset classes based on how each compares to the others in terms of price performance. Not surprising, these asset class preferences can persist for several years.

## The Results

Properly increasing client weighting to an outperforming asset class can add significantly to overall performance. A review of historical asset class performance provides validation that, if done well, dynamic asset class re-weighting can both reduce risk and enhance returns. Looking at how large cap growth stocks performed in the late 1990's or how the small cap value sector has performed in the past five years highlights the need to view portfolio allocation decisions not only at the **macro** level (cash-bonds-stocks), but also at the **micro** level (growth versus value and market cap for equities, and maturity and credit quality for bonds).

## Implementation

It is important to understand that the SummitAlliance **Dynamic Asset Allocation Overlay™** works in concert with the client's optimal, or *neutral*, asset class mix. This means simply that for each client investment strategy, there is a corresponding weighting of asset classes that fits best, and

then the overlay process merely increases or decreases exposure to a given asset class based on assessed strength, or preference, relative to others. So, it should be clear that this is NOT market timing or "pushing all of our chips onto one square on the board" so to speak, but rather, is used to **tilt** the allocation toward areas of potential opportunity.

Best	95	96	97	98	99	00	01	02	03	04	05
Large Growth Stocks	38.13%	23.97%	36.52%	42.16%	43.09%	43.09%	14.02%	10.30%	48.54%	22.25%	14.02%
Large Value Stocks	37.58%	22.96%	33.36%	28.58%	28.25%	11.63%	8.44%	-11.4%	47.25%	20.70%	7.05%
Large Value Stocks	36.99%	22.00%	31.78%	20.00%	26.96%	6.08%	2.49%	-15.9%	46.03%	18.33%	6.27%
Small Growth Stocks	31.04%	21.37%	29.98%	14.69%	21.26%	-3.02%	-9.23%	-20.5%	38.59%	16.49%	5.26%
Small Value Stocks	28.44%	16.53%	22.36%	8.70%	21.04%	-9.11%	-11.71%	-20.9%	30.03%	14.31%	4.71%
Small Value Stocks	25.75%	11.32%	12.93%	1.23%	12.72%	-13.96%	-11.88%	-22.1%	29.89%	11.40%	4.55%
Bonds	18.46%	6.05%	9.64%	-2.55%	-0.82%	22.08%	-12.73%	-23.6%	29.75%	6.30%	4.15%
Foreign Growth Stocks	11.21%	3.64%	1.78%	-6.46%	-1.48%	-22.43%	-21.21%	-30.3%	4.10%	4.34%	2.43%
Worst	95	96	97	98	99	00	01	02	03	04	05

## One Trade Rebalancer™

In an effort to make the implementation of dynamic allocation more efficient, SummitAlliance developed a trade-marked process for intelligently rebalancing portfolios called the **One Trade Rebalancer™**. The process is best explained by way of example. Using a 75%/25% allocation scenario, 75% is deployed to the respective money managers' baskets of securities or mutual fund within each asset class based on the client's initial asset allocation. The remaining 25% exposure to that asset class is achieved through the purchase of the index funds that corresponds to those managers' asset classes. Based on the signals resulting from the **Dynamic Asset Allocation Overlay™**, client exposure to certain asset classes is increased or decreased by placing a **single trade order** (buy or sell) with the corresponding exchange traded funds (ETFs) for each asset class. Asset class exposure can be increased or decreased without disturbing the active managers' securities. This is important because it eliminates the need to trade small amounts of numerous securities and it maintains consistent exposure to the managers' expertise.