







Q

➤ Volume 47, Issue 5

Home ▶ All Journals ▶ Economics, Finance & Business ▶ Financial Analysts Journal ▶ List of Issues

► The Performance of Tactical Asset Alloca ....

Financial Analysts Journal > Volume 47, 1991 - Issue 5

117 | 11 0

Views CrossRef citations to date Altmetric

Research Articles

## he Performance of Tactical Asset Allocation

Eric J. Weigel

Pages 63-70 | Published online: 31 Dec 2018

**66** Cite this article https://doi.org/10.2469/faj.v47.n5.63

🎥 CFA Institute members: <u>sign in to access the Financial Analysts Journal</u>.

Sample our Economics, Finance, Business & Industry Journals >> Sign in here to start your access to the latest two volumes for 14 days

**66** Citations

Metrics

Reprints & Permissions

Read this article

Share

by Eric J. Weigel

# The Performance of Tactical Asset Allocation

Tactical asset allocation (TAA) is the practice of altering asset class exposures in accordance with model-based risk-reward expectations. An analysis of 17 U.S. managers who use TAA to rebalance between large-cap stocks, long-term bonds and cash equivalents reveals that the vast majority provided positive timing ability at a statistically significant level. This holds for both managers' simulated and actual market returns.

The managers' market-timing skills, however, are inversely related to other investment skills. Managers good at timing broad market aggregates appear to be deficient in other investment activities. Transaction costs may partly explain this phenomenon, but the sheer magnitude of the return-diminishing non-market-timing term is too large to be entirely attributable to transaction costs.

Furthermore, the market-timing performances of the managers varied considerably over time. This tendency will probably persist in the future, as managers update their forecasting sustems and capital market conditions change.

THE DYNAMIC adjustment of a portfolio's investment weights across broad asset classes has become a hot topic since the October 1987 market crash. Of course, investment managers have been altering exposures to different asset classes according to "gut" feeling or subjective risk/reward assessments for a long time. What is new now is the thorough application of the principles of modern portfolio theory and econometrics to examine quantitatively the expected risk/reward tradeoffs of major asset classes.

A driving force behind the rush to apply quantitative techniques to dynamic asset allocation strategies has been recent statistical evidence on the predictability of stock and bond market returns. While most of the analyses have focused on forecastability over long horizons, there is evidence that stock and bond market returns are also predictable (but at more modest levels) over shorter intervals.<sup>1</sup>

From a practical perspective, the result has been the "growth" of money management firms professing to be able to time the movements of

broad market aggregates. Their market-timing activities have been labeled "tactical asset allocation" (TAA). We estimate that there are currently over \$42 billion under management in TAA strategies.

Our study attempts to determine quantitatively the market-timing ability of a sample of 17 U.S. TAA managers. All are major firms managing substantial amounts of money. They all switch funds between large-company stocks, long-term bonds and cash equivalents—a so-called three-way market-timing strategy.

Because of the relatively short history of the strategy, hence the limited number of **market observations**, we formed two samples. One combined manager-simulated with actual market returns. The other used only actual market performance.

The measurement methodology we use is taken from Merton and Henriksson and has its origins in option pricing theory. The performance attribution methodology decomposes manager returns into three sources—returns to a static asset class mix, returns to market timing and returns to non-market-timing strategies such as security selection, stock index arbitrage

FINANCIAL ANALYSTS JOURNAL / SEPTEMBER-OCTOBER 1991 

63



### Log in via your institution

> Access through your institution

Log in to Taylor & Francis Online

Log in

### Restore content access

> Restore content access for purchases made as guest

<sup>1.</sup> Footnotes appear at end of article.

### Purchase options \*

### Save for later

#### PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed

EUR 48.00

Add to cart

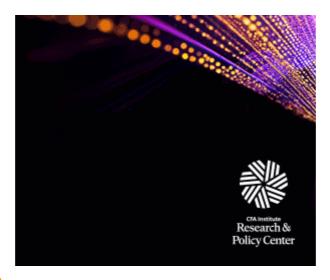
### Issue Purchase

- 30 days online access to complete issue
- · Article PDFs can be downloaded
- Article PDFs can be printed

EUR 175.00



\* Local tax will be added as applicable



Related Research 1

People also read

Recommended articles

Cited by

Information for

**Authors** 

**R&D** professionals

**Editors** 

Librarians

**Societies** 

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

**Open Select** 

**Dove Medical Press** 

F1000Research

Help and information

Help and contact

Newsroom

All journals

**Books** 

#### Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions



Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG