



Financial Analysts Journal >

Volume 47, 1991 - [Issue 5](#)

117 | 11

Views | CrossRef citations to date | 0

Altmetric

Research Articles

The Performance of Tactical Asset Allocation

Eric J. Weigel

Pages 63-70 | Published online: 31 Dec 2018

“ Cite this article <https://doi.org/10.2469/faj.v47.n5.63>

 CFA Institute members: [sign in to access the Financial Analysts Journal](#).

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



“ Citations

 Metrics

 Reprints & Permissions

Read this article

 Share

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 systems 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.¹

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.² 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

1. Footnotes appear at end of article.

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

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

Add to cart

* Local tax will be added as applicable



Related Research

People also read

Recommended articles

Cited by 11

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



Copyright © 2025 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)



Taylor & Francis Group
an informa business

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