# Tactical Asset Allocation Is Gaining Attention

By Kaja Whitehouse
*Dow Jones Newswires*

NEW YORK—If you hire someone to manage your investments for you, learn this term: tactical asset allocation.

It is an investment strategy that is gaining greater attention by major banks and brokerage houses, and therefore, it is seeing increased use by investors. It occurs when investment decisions are based on predictions for changes in the macroeconomy, or in the markets, rather than on the client's individual risk tolerance or future goals. So while your risk tolerance may require a 60% exposure to stocks, predictions that stocks will rise in the next 12 months or so may result in a so-called tactical recommendation of a 70% investment in stocks.

Investment banks that are advocating greater employment of this method, such as **J.P. Morgan Chase** & Co.'s Private Bank, say it is safer and works better than quick jumps in and out of the market.

Some academics agree.

"Tactical asset allocation is a more scientific version of market timing. You use science to determine trends" instead of instinct, said Meir Statman, chairman of the finance department of the Leavey School of Business at Santa Clara University in California.

Whether or not you agree with tactical strategies, the fact is that this investing method is gaining greater attention and affecting more portfolios. That means that anyone who hires a broker or financial adviser to manage their money should learn whether tactical strategies are being employed and be aware of the pros and cons.

For example, it can result in a bigger tax bill and higher fees, so ask questions before you agree to any changes. One strategy might be to go light on any tactical recommendations until you are sure that you feel comfortable with how your adviser manages fees and taxes. And make sure you aren't tempted by the promised returns, but comfortable with the risks involved.

The reason some banks and brokerage firms are placing greater emphasis on tactical methods is because they believe stocks and bonds will trade in a narrow range for some time. That means that unless investors take active measures to capture shorter-term jumps during volatile times, performance will be disappointing.

Stocks had done well during the 1990s, and bonds picked up much of the slack after that. But now, investors are facing historically low interest rates and little prospect for double-digit equity returns, said Jack Caffrey, equity strategist with J.P. Morgan's private bank in New York. The bank's magazine for wealthy clients this month featured a six-page article on tactical asset allocation, explaining why it plans greater implementation of this strategy for clients.

And other banks and brokerage firms are doing the same.

Strategists at high-net-worth divisions of **Deutsche Bank** AG and **Bank of America** Corp. also said they are seeing a greater emphasis on this strategy at their firms. All three are raising clients' exposure in different ways. J.P. Morgan is suggesting a greater percentage of clients' portfolios be invested in the bank's tactical decisions. So whereas an adviser would once tilt 1% or 2% of a client's portfolio to a tactical move, it now plans to "increase the level of deviation" to 5% or 10%, said Chris Wolfe, head of equities at J.P. Morgan's Private Bank.

Deutsche Bank's U.S. Private Wealth Management group said it isn't emphasizing greater exposure but is making more tactical bets than in the past. "Recognition of an environment of lower returns makes it important to exit on a timely basis," said Richard Byrnes, chief investment officer for the Deutsche Bank unit.

For Bank of America's high-net-worth group, clients seem more receptive to tactical moves. One reason: "Tactical views are actually adding value," whereas they didn't during the bull market, said Steven B. Young, chief investment strategist at the firm's Banc of America Capital Management unit in St. Louis.

Firms that advocate greater implementation of tactical strategies say they won't let clients depart too much from so-called strategic-allocation decisions, the decisions that are based on the client's risk tolerance and investment goals. They will recommend a deviation of 5% to 15% to accommodate tactical bets, but rarely should it go further.

Of course, the biggest question investors will have is also the hardest to answer: whether tactical asset allocation actually works.

There is evidence to support both sides. One side says the potential for increased fees and taxes makes it too risky. "You know the costs are certain but the benefits are far from certain," said Lubos Pastor, associate professor of finance at the University of Chicago's Graduate School of Business.

Others say fees shouldn't matter if tactical asset allocation is done correctly. "The goal is not to churn," but to put people in assets that will outperform or reduce risk of underperforming, said Campbell R. Harvey, a finance professor with Duke University's Fuqua School of Business.

Sept 25 2003 D2