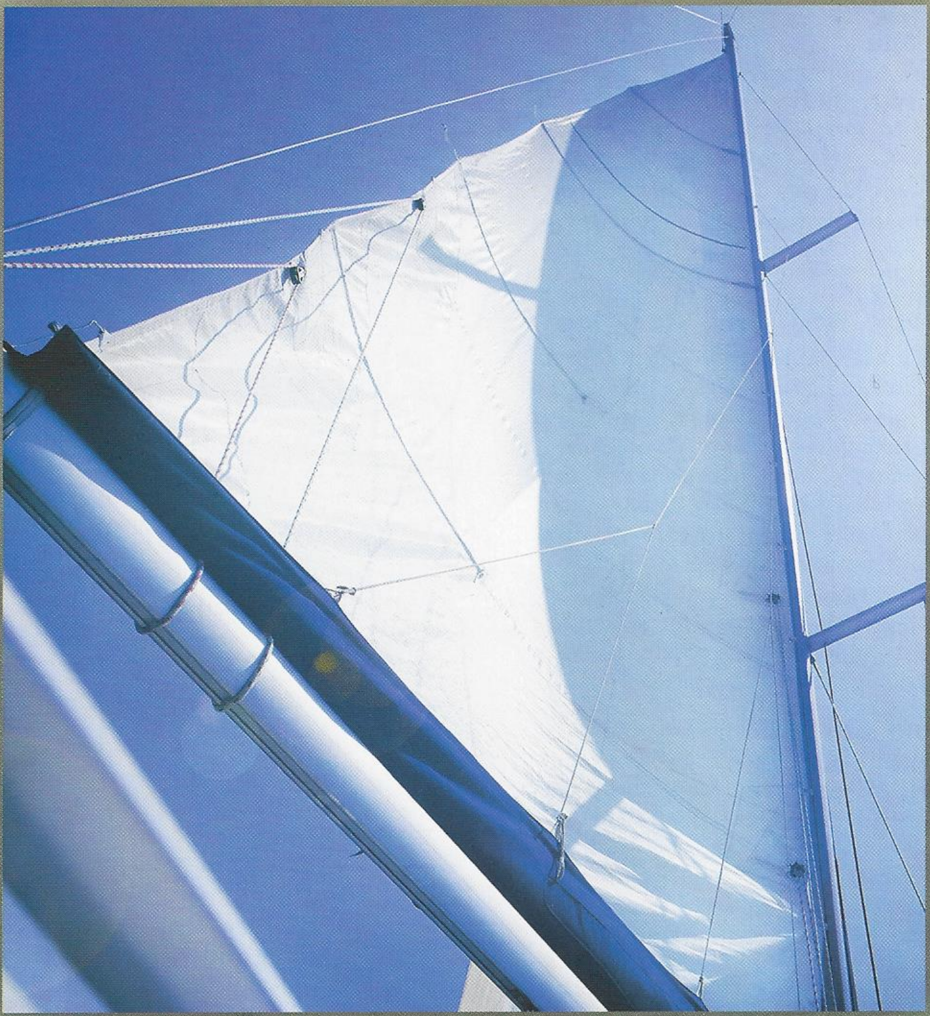
Strategic vs. TACTICAL INVESTING



ADJUSTING YOUR PORTFOLIO'S SAIL TO REACH YOUR INTENDED DESTINATION

BY MATTHEW A. STOUT AND MARC E. BOWMAN

MARKET VOLATILITY IN RECENT YEARS HAS LEFT MANY INVESTORS FEELING SOMEWHAT SEASICK. PERIODS OF SMOOTH SAILING AND MINOR FLUCTUATIONS HAVE BEEN INTERRUPTED BY SEVERE STORMS THAT HAVE PRODUCED DREAD, DOUBT AND PERHAPS EVEN FEAR. GONE ARE THE DAYS OF SITTING BACK AND ENJOYING A DAY OF PEACEFUL SAILING. TODAY'S INVESTORS AND THEIR ADVISORS MUST BE BOTH STRATEGIC AND TACTICAL IN MANAGING INVESTMENT PORTFOLIOS.

Strategic investing uses a fixed asset allocation that is at the core of many portfolios. The strategic asset mix contains a variety of different types of investments and their allocation within the portfolio stays the same. Strategic investing is meant to be a ship that weathers all storms, anticipating positive long-term performance without reacting to short-term changes. The underlying theory is that, over the long-term, the portfolio should withstand market volatility and achieve a certain percentage return.

By contrast, tactical investing occurs when the portfolio's sail is adjusted due to both current and expected changes in the investment forecast. Tactical investors move to limit risk and create additional return based on what is occurring in the market in the shorter term. This continuous evaluation of the portfolio typically produces minor shifts in asset allocations versus drastic changes. Instead of sticking with a fixed allocation of assets, the tactical investor can choose to overweight or underweight any asset class at any time according to market expectation.

For example, the market historically does not experience significant growth during the summer. The tactical investor might move some asset allocation from growth funds to more stable fixed income or cash-based assets.

Solid tactical investing employs a time-consuming, defined process based on the outcome desired by an investor. Tactical investment advisors consider many market indicators, such as interest rates and the consumer spending index; look at the market's expected returns

in 3, 6 or 12 months; and daily review several independent research resources. These independent resources produce conclusions based on facts – facts everyone agrees on. If the resources agree on the likely direction of the market, tactical advisors make moves accordingly. If the resources anticipate different outcomes, advisors are likely to become more defensive and remove risk from the portfolio.

Tactical investing looks at what is anticipated to happen in the future and works proactively to control risk. No one can predict the future 100 percent, but tactical advisors, armed with solid research, understanding of market indicators and the expertise of multiple independent research sources, can gauge market movement relatively accurately.

There are several benefits to the tactical investing approach. Tactical investing is based on proactive research, not reactive emotional decision-making. Tactical investing gives investors true independence in the structure of a portfolio and allows investors to be more nimble and flexible in the market. Tactical investing becomes most advantageous when large market fluctuations occur.

Tactical investing can be employed by every investor, whether it is 10, 20, 50 or 100 percent of a portfolio. The proportion of strategic investment versus tactical investment will vary based on the individual investor's desired goals. Tactical investing works best for clients who understand their asset to liability ratios; know their fixed income (e.g., pensions, Social Security) resources; are certain of the percentage of return they need to achieve; and don't watch their portfolio daily, but trust their advisor to manage with expertise and integrity.

Every investor should have their advisor draw up an investment policy statement. This statement will outline items such as asset allocation, how often the allocation will be balanced, how the advisor is paid (fee-only or commission), and what the client and advisor can do if anticipated returns are not achieved.

Is tactical investing right for you? That question can only be answered as you define an investment strategy that reflects your temperament, risk tolerance and goals. Both strategic and tactical investing can create an investment portfolio that will allow you to successfully reach your financial objectives. ■


Matthew A. Stout is president and managing partner of Stout Joyce Bowman & Associates in Camp Hill. Matt has more than 15 years of experience in the financial services industry and you may recognize him from appearances on Fox43 Morning News and local newspapers and magazines.


Marc E. Bowman is a partner and chief financial officer at Stout Joyce Bowman & Associates. Marc has been working in financial services since 1998 and focuses on personalization when matching each client with the right financial products and services. Matt and Marc can be reached at 717.761.2040 or www.stoutjoyce.com.