# Strategic vs. Tactical Asset Allocation

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When it comes to investments, understanding the difference between strategic and tactical asset allocation can be important. These two asset allocation methods are instrumental in driving performance and resilience of a multi-asset portfolio. In our latest Fundamental Flash, we unpack the differences between the two and how investors can employ both methods effectively.

## What is Strategic Asset Allocation?

Strategic Asset Allocation (SAA) is a long-term investment strategy that establishes a fixed asset mix based on risk tolerance, financial goals, and investment horizon. It involves setting target allocations for various asset classes (such as equities, bonds, and cash) and periodically rebalancing the portfolio to maintain these targets.

### Key Characteristics

#### Long-Term Focus

SAA is designed to weather market fluctuations and align with long-term financial goals. It ensures that the portfolio remains resilient over decades, accommodating different market cycles.

#### Disciplined Approach

By following a predetermined strategy, SAA reduces emotional decision-making as investors are less likely to make impulsive changes based on short-term market movements.

#### Ideal for Long-Term Goals

SAA is ideal for investors with long-term objectives, such as retirement or education funding. It provides a solid foundation that can endure market volatility.

#### Periodic Rebalancing

Regular adjustments ensure the portfolio remains aligned with the investor’s goals and risk tolerance due to market movements.

# What is Tactical Asset Allocation?

Tactical Asset Allocation (TAA) is a short-term, dynamic strategy that involves actively adjusting the asset mix based on current market conditions, economic trends, and emerging opportunities. TAA aims to capitalise on short-term market inefficiencies and trends to enhance returns.

## Key Characteristics

### Suitable for Active Investors

TAA is ideal for investors who are more hands-on and have the time to monitor market conditions closely. It allows them to take advantage of short-term opportunities and market inefficiencies. This strategy can be particularly rewarding during periods of market volatility.

### Short-Term Focus

TAA allows responding to market changes and seizing short-term opportunities. It requires a keen understanding of market dynamics and the ability to act quickly.

### Flexibility

By adjusting the asset mix, TAA helps navigate different market environments and economic cycles. This flexibility can be particularly valuable in volatile or rapidly changing markets.

### Active Management

TAA requires regular monitoring and adjustments to take advantage of market conditions. This hands-on approach can lead to higher returns if executed well, but it also involves higher risk and more effort.

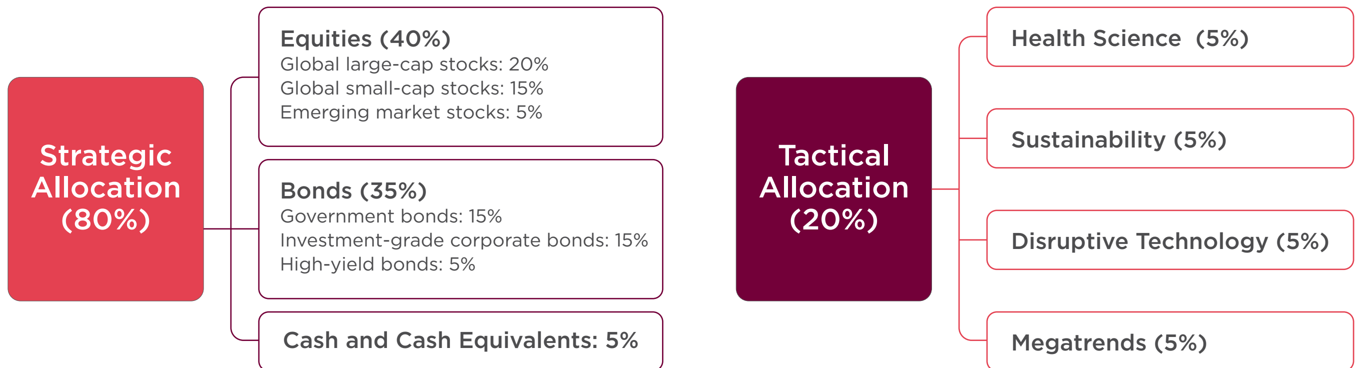
# Differences Between Strategic and Tactical Asset Allocation

| | Strategic Allocation | Tactical Allocation |
|---|---|---|
| Time Horizon | Long-term | Short-term |
| Investment Goal | Long-term growth and wealth preservation | Short-term gains by exploiting market inefficiencies |
| Approach | Relies on a fixed asset mix with periodic rebalancing. | Involves active, dynamic changes based on market conditions. |
| Monitoring | Periodic | Continuous |
| Investor Type | Suitable for most investors, particularly those with a long-term perspective | Suitable for active investors who can monitor and respond to market changes |

## How Both Strategies Complement a Portfolio

Combining SAA and TAA can create a balanced investment approach that leverages the strengths of both strategies. While SAA provides a stable foundation, TAA adds a layer of flexibility and responsiveness.

### Model Portfolio:




In the example above, SAA forms the bedrock of the portfolio. By committing 80% of the portfolio to broad, diversified exposure across different global markets and asset classes, investors ensure a stable and consistent approach to wealth accumulation.

For example, a balanced investor might allocate 40% to equities ensuring exposure to both large-cap, small-cap, and emerging market stocks.

Within the bond segment, the investor may allocate 35% of the portfolio across government bonds, investment-grade corporate bonds, and high-yield bonds which provide a steady income stream and help cushion losses in equities.

Additionally, having 5% in cash and cash equivalents ensures liquidity for immediate needs or as spare ammunition to deploy.

On the other end, the TAA component comprising 20% of the portfolio, is where active management comes into play. This segment is designed to capitalise on short-term market inefficiencies and emerging trends.

For instance, dedicating 5% to health science allows investors to benefit from advancements in biotechnology, pharmaceuticals, and medical devices. Similarly, a 5% allocation to thematic trends such as shifting demographics positions the portfolio to gain from changes in consumer preferences.

The sustainability allocation of 5% focuses on low-carbon investments and companies that are poised to benefit from the transition towards renewables. Finally, a 5% stake in disruptive technology, including artificial intelligence, blockchain, and robotics, ensures exposure to companies involved in groundbreaking innovation.

## Complementary Strategies for a Resilient Portfolio

Strategic and tactical asset allocation are both essential tools in an investor's toolkit. While strategic allocation provides a stable foundation aligned with long-term goals, tactical allocation offers flexibility to capitalise on short-term opportunities.

By combining these strategies, investors can build resilient portfolios that adapt to changing market conditions and help them reach their financial goals.

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