



How Tactical Asset Allocation vs Strategic Asset Allocation May Benefit You

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Strategic Asset Allocation (“AA”) is the typical asset allocation that most of us have utilized and known about for years. Strategic AA sticks to a constant mix policy (e.g. 50% stocks and 50% bonds). When the actual percentages vary from the target, the account is “rebalanced” to bring it back to the constant mix percentages. Strategic AA is driven by the risk, return, and correlation of the asset classes used. It has a high correlation to the market and hence experiences a high degree of market risk.

Tactical AA, on the other hand, allows the mix of assets to continually adjust as markets rise and fall to take advantage of short-term changes. So, a portfolio could be 100% equity at any time or 100% fixed, depending on the market conditions. In order to accomplish this, Tactical AA implements active management techniques that have the ability to provide positive

performance regardless of the market environment, be it a bear or bull market. Usually Tactical AA employs a lower correlation to the market and is positioned to take advantage of an inefficient market.

DWM Financial Group supports both types of AA services as studies show both can lead to beneficial long-term results.

Strategic AA is often employed in buy-and-hold portfolios based upon the concepts of modern portfolio theory. This theory, for which University of Chicago’s Harry Markowitz received a Nobel Prize, has been a backbone of portfolio construction for more than 50 years. Today, some experts have argued that modern portfolio theory has become outdated by its oversimplified view of the markets; overstating the efficiency of the markets and focusing too much on past performance.

John Mulvey, Princeton University professor of operations research and

financial engineering, stated in a January 16, 2008 article in Investment News that “markets now are much more dynamic”. He went on to say that, “risk in down markets has become increasingly critical for investors and advisers.” And, he concluded that investors need to “move away from traditional assets to alternative investments”.

Here at DWM Financial Group, we are very familiar with Tactical AA. In 2006, we created a Tactical AA platform which we call The Dynamic Tactical Investment Strategy (“DTIS”). As an example of how it works, the highlights of our DTIS program, which is now almost two years old, are as follows:

- Includes alternative asset classes/ investment styles such as commodities, real estate, and inverse funds.
- Identifies areas of strengths and weaknesses within the market based

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DWM is Growing!

Brad Waite has joined DWM Financial Group, Inc. in its Charleston office as national marketing director of its DWM Investment Management division and relationship manager in its Detterbeck Wealth Management Division. Prior to joining DWM, Brad was with Montis/Exley Asset Management and Blue Granite Capital and was a Licensed Financial Advisor and Marketing Coordinator with both Wachovia Securities and Interstate/Johnson Lane.

Brad holds several high school coaching licenses and dedicates time to youth soccer

programs in the Charleston, SC area. He is also involved with after-school programs as well as international youth programs that travel worldwide.



Tactical vs. Strategic (continued)

upon a data-driven statistical approach.

- Gravitates toward either a bullish or bearish position depending upon market conditions.
- Does not get married to a particular position, sector, or manager.
- Provides ongoing monitoring of the current investment portfolio and makes timely, unemotional adjustments when necessary.

Regarding risk management and suitability, DTIS will gravitate to either an offensive or defensive posture based upon trends in the marketplace and respond accordingly. Therefore, DTIS is designed to perform well relative to Strategic AA in down markets.

Tactical is particularly well employed in tax-qualified or tax-deferred accounts. Tactical AA strategies are dynamic and hence positions are frequently rebalanced. This produces frequent trades and generally ordinary income (as opposed to dividends or long-term capital gains). Therefore, IRAs and variable annuities are great vehicles for money invested using Tactical AA. As a result, some investors might consider using Strategic AA for taxable money and Tactical for non-taxable money.

If you would like to learn more about Tactical Asset Allocation, how it compares to Strategic Asset Allocation and how it might fit into your portfolio, please let us know.

ACT NOW TO TAKE ADVANTAGE OF FALLING RATES

That's generally good news for estate and charitable planning. Applicable Federal rates or "Section 7520" rates have dropped in recent months. The safe-harbor mid-term rate (for transactions more than three years and not more than nine years) is now 3.2%. It was 5.6% a year ago. Rates are the lowest in five years.

That presents a rare opportunity to implement certain estate and charitable planning right now. Here's why:

The lower the interest rate, the less an income interest is worth, and, by corollary, the remainder interest is worth more. Hence, grantor retained annuity trusts (GRATs) could be a great family planning tool to transfer assets if the assets produce a total return in excess of the 7520 rate. Similarly, charitable lead annuity trusts (CLATs) could also benefit the family since any growth in the trust in excess of the 7520 rate passes to the non-charitable remainder beneficiaries.

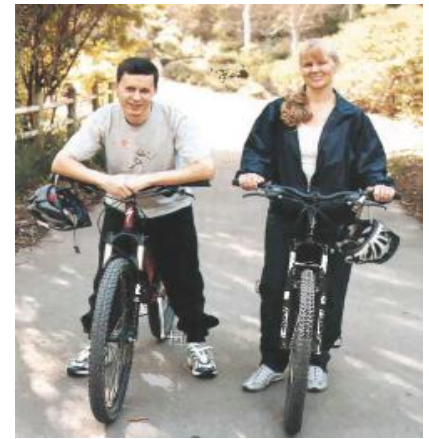
The current timing gift to a charity of a remainder interest in a personal residence or farm has rarely been better. This is because the remainder interest is valued higher and therefore your charitable gift deduction, is higher as well. It's also a great time to look at family planning through private annuities, family loans, and self-cancelling installment notes.

Please note, there are some planning techniques that don't work as well in a low interest rate environment. These include charitable remainder trusts (CRATs) and charitable gift annuities.

We think it is always a great time to consider estate and charitable planning, but now may be the perfect time to act. With federal interest rates at historical lows, some of the tools and techniques can add even more value. Please give us a call, if you would like to talk.

IRA UPDATE

Les Detterbeck was asked to be a Guest IRA expert author for Ed Slott's IRA Advisor newsletter in February. His article, "Don't Let Roth IRA Planning Wait until 2010" was picked up by the Wall Street Journal, Market Watch, Yahoo Finance, and Kiplinger's and featured in part in those publications. If you would like a reprint of the article, please let us know.



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