Letters to the Editor

February 28, 2012

The following are in response to Christopher Sidoni's article, The Conflict between Tactical Asset Allocation and Behavioral Finance, which appeared last week:

Dear Editor,

Christopher Sidoni makes several excellent points, and I cannot fault his conclusion that a tactical strategy is probably not worth pursuing. It is, after all, a decision every advisor must come to on his or her own.

I happen to be in the same camp as Bob Rodriguez, who said in Caution: Danger Ahead that he could not subscribe to Keynes' dictum that "it is better for reputation to fail conventionally than to succeed unconventionally."

But I am not writing simply to express satisfaction or disappointment with Sidoni's conclusions. My disappointment stems from his decision to mention only the slight return enhancement from a tactical strategy, without reference to risk reduction. Although I agree with Sidoni that investors will likely always allow emotion to sway their investment decisions, it is their focus on only one half of the risk/return dynamic at market extremes which drives such behavior. By focusing his conclusion on only return enhancement, without a corresponding discussion of risk reduction, Sidoni has denied his readers a benefit of knowledge he surely gives to his clients.

Joe Almon, CFA
Avant-Garde Wealth Management, Inc
Denver, CO

Dear Editor,

Christopher Sidoni's article exploring the behavioral challenges of tactical asset allocation (TAA) is important reading for all advisors following the TAA conversation in the financial planning world. I maintain a catalog http://devoted/ of research on a closely related topic, the cyclically-adjusted price-to-earnings ratio (CAPE).

I would love to see a research effort to study whether the average advisor-directed investor is more likely to stick with a TAA or buy-and-hold approach to investing. As we well know, behavioral pressures cause many an investor to abandon a well thought out buy-and-hold investment plan when the stock market is both rising and falling dramatically. I'm

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wondering if TAA would eliminate or reduce the tendency to bail on the downside. If the advisor is using an objective measure (like the CAPE) to make asset allocation adjustments will it help the investor stick with the advisor's recommendations?

I would also point to two closely-related blog posts from Michael Kitces Who's Really At Risk When Avoiding Overvalued Stocks? and If Clients Are Naturally Loss Averse, Why Don't We Invest For Them That Way?. These posts discuss the tradeoff between managing clients' asset allocations and exposing them to unnecessary risk.

Keep those thought provoking articles coming!

Kay Conheady
Apropos Financial Planning
Rush, NY

The following is in response to Simon Johnson's commentary, Too Big to Jail, which appeared on February 21:

Dear Editor,

As someone who has lived and worked my entire life in Washington, DC, I read Simon Johnson's piece with bemusement. The real culprits that should be fined and sent to jail for their parts in the current crisis are the politicians, central bankers and regulators who legislated, encouraged and facilitated the endless series of financial disasters we face. While the private sector is certainly culpable, if left alone, the free markets would have sorted out the situation, apportioned the pain, and cleared the markets long ago.

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