



A Portfolio (or Two) for a Binary World

By Russ Koesterich, CFA, Managing Director
iShares Global Chief Investment Strategist
January 9, 2012

How do you actually put a portfolio together, given what a binary world we seem to be in, in the sense that you could have on one scenario, muddle-along; the second scenario, a crisis?

And we just actually completed a meeting at the BlackRock Institute. We called together many of the group's -- the firm's leading investors to talk about this very topic. And the consensus we came to was to think about having perhaps two portfolios. Here's your baseline assumption, the portfolio you'll have if the world continues in this muddle-through, slow-growth environment. And then a second portfolio you're going to have which is more of the crisis portfolio, which will look very different.

And the portfolio construction is effectively to weight each of those by the odds you expect that scenario. So my own view is that you've got about a 60 percent chance that the global economy continues to muddle along in 2012, and about a 35 percent chance that you really descend into a crisis. So we would weight those two portfolios in accordance.

The other way to do this is that you basically have your baseline portfolio, and you allocate some portion of that for insurance, some type of tail-risk strategy. The problem with that approach is right now those tail-risk strategies are very expensive to implement. So I think it's better to actually think about having the two portfolios and combining them.



Written Disclosure:

Russ Koesterich is affiliated with BlackRock Investments, LLC.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice.

The strategies discussed are strictly for illustrative and educational purposes and should not be construed as a recommendation to purchase or sell, or an offer to sell or a solicitation of an offer to buy any security. There is no guarantee that any strategies discussed will be effective.

©2011 BlackRock Institutional Trust Company, N.A. All rights reserved. iShares® is a registered trademark of BlackRock Institutional Trust Company, N.A. BlackRock® is a registered trademark of BlackRock, Inc. All other trademarks, servicemarks or registered trademarks are the property of their respective owners. IS-5900-1211

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>