ASSET ALLOCATION ROTATIONS AND TACTICAL PORTFOLIO MANAGEMENT

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On last week's podcast, we had the opportunity to speak to Nick Chamie, CIO of International Wealth at Scotiabank, and Mike Philbrick, co-founder of ReSolve Asset Management. Here are some of the highlights.

Philbrick and I met on Alpha Architect's March for the Fallen charity event that I profiled recently. We made a pact to recruit for next year's march and discussed the harrowing nature of the 29-mile event at the end of our conversation.

Philbrick began ReSolve with his two co-founders because they were in Canadian wealth management and could not find the products they wanted for clients. Therefore, they decided to build what they were looking for.

Asset Class Rotation: ReSolve looks to create portfolios that thrive in both sanguine and hostile markets. This is not about using stock-picking strategies—ReSolve sees that as a mug's game. Philbrick and his partners believe the industry doesn't focus enough on asset allocation rotation, so they are looking to create unique solutions there.

Risk Parity Strategies: Philbrick's firm wrote a post on the history of Ted Seides's bet with Warren Buffett and how risk parity strategies that would have levered up hedge fund returns may have outperformed the general market—and risk parity embraces this concept of leveraging the lower volatility returns for various inflation and growth regimes. ReSolve believes risk parity (which balances equities, bonds and gold, levering it up to the 16% volatility to approximate the S&P 500) can outperform an equity portfolio. We also talked about pro-cyclical and counter-cyclical risk parity strategies as a follow-up to our conversation with Rich Wiggins, who suggested anti-risk parity as a concept.

With Chamie, who oversees portfolio construction for Scotiabank clients, we discussed the process of making tactical portfolio recommendations in light of the current macro environment.

Lack of Optimism Is Striking: Chamie commented that one of the things that interests him is the lack of optimism around the global economy and markets. We not only are at a seven- to eight-year high for the economy, but the growth is broadening out from the U.S. to all corners of the world. Chamie believes this allows the U.S. to rebalance while other economies take leadership. Given this positive economic growth environment, Chamie still expects a positive 12-month set of returns.

Tactical Bias Outside of the United States: Again on the global growth backdrop, Chamie looks for better investment opportunities outside the U.S. and also in "value stocks" and cyclicals. His favored sectors are Financials, Industrials, Materials and Energy. 2017 has witnessed approximately 4500 basis points (bps) of tech outperformance over Energy, and he sees the latter turning.

Not a Big Oil Bull: Chamie's positive view on the energy sector does not mean he sees a rip higher in oil, but price stability supports the sector, reinforcing his positive view on cyclicals and value stocks.

This was just a few of the highlights of the conversation. Listen to the full "Behind the Markets" episode for an extended discussion with Professor Jeremy Siegel at the beginning of the show.

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DEFINITIONS

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Inflation : Characterized by rising price levels.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Cyclical sectors : Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Basis point : 1/100th of 1 percent.

Bullish : a position that benefits when asset prices rise.