Modern Portfolio Theory

Wall Street strategists' dismal track record with their S&P 500 sector recommendations illustrates how extremely difficult it is to systematically add α with tactical asset allocation – ie. trying to guess which sectors, styles, markets (foreign vs. domestic) or asset classes (eg. stocks, bonds, commodities, gold, etc.) are going to outperform and which are going to lag. In my opinion, MPT is still the best investing mousetrap yet devised.

"Your mother called to remind you to diversify."

Modern Portfolio Theory = Asset Allocation

Modern portfolio theory was introduced by Harry Markowitz with his paper "Portfolio Selection," which appeared in the 1952 *Journal of Finance*.

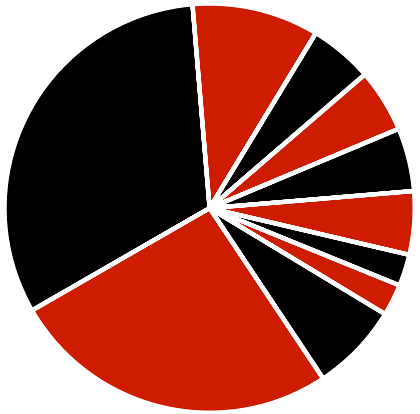
Thirty-eight years later, he shared a Nobel Prize with Merton Miller and William Sharpe for what has become a broad theory for portfolio selection.

Modern Portfolio Theory

Diversify

Optimize

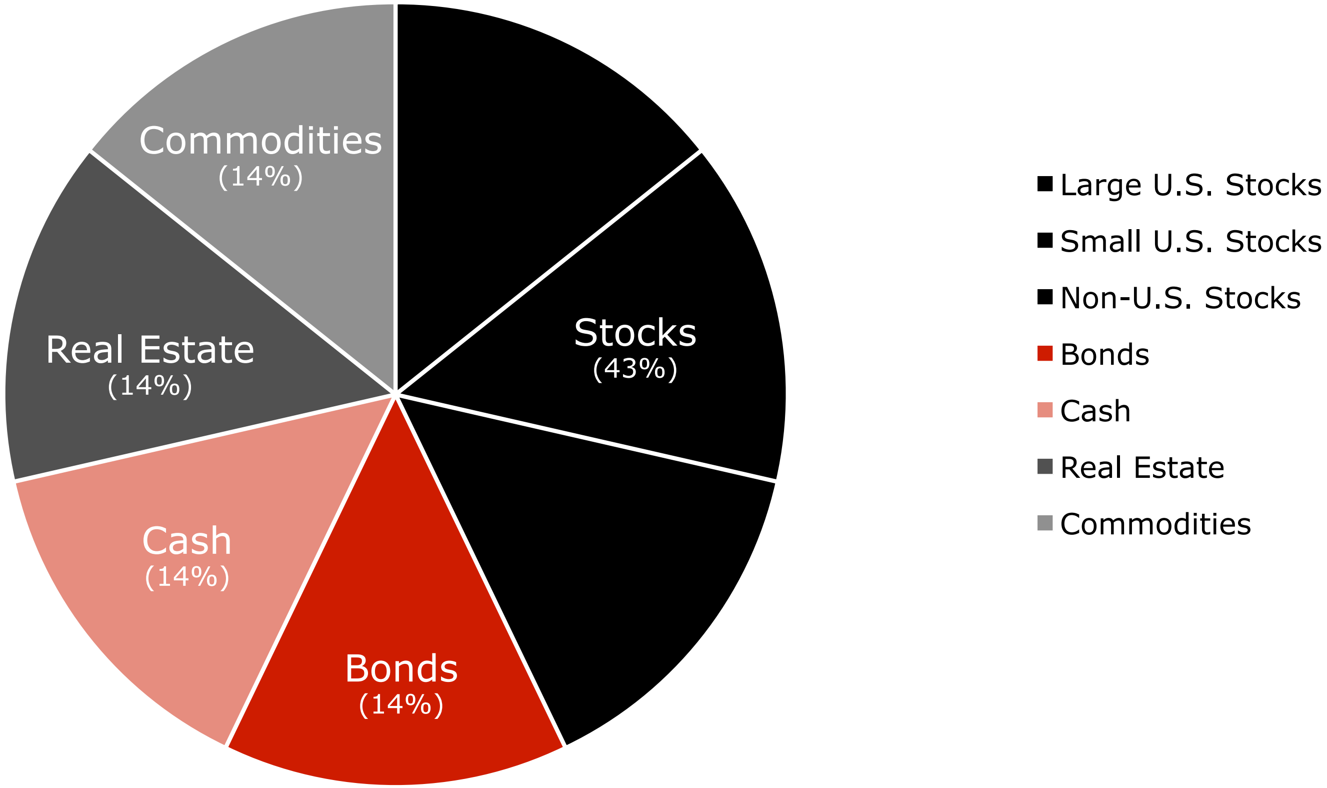
Rebalance



Asset allocation and diversification do not guarantee a profit or eliminate the risk of loss.
Source: Riskglossary.com

Asset Allocation — An Example

Let's construct a global balanced portfolio using 7 asset classes …



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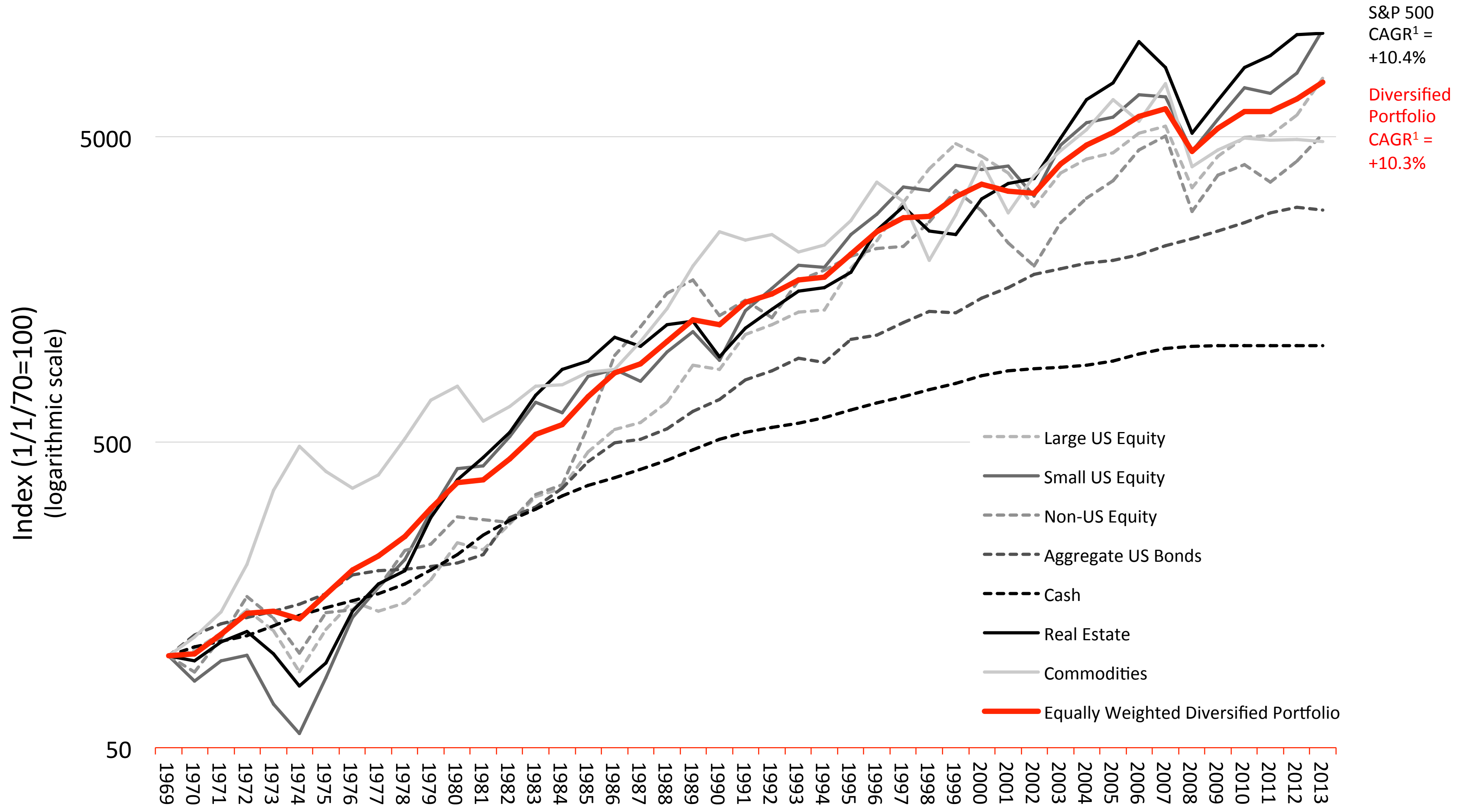
Asset Allocation — An Example



[1]Compound annual growth rate.

Past performance is not a guarantee of future results. An investment cannot be made directly in the indexes used in this illustration.
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Asset Allocation — MPT has delivered