Getting the most out of asset allocation

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Making portfolio allocation decisions based on risk can boost investors' likelihood of reaching their goals. Employing a dynamic approach may deliver even better results.

For many investors, asset allocation decisions are based on dollars — say, splitting $100 between $50 in equity and $50 in fixed income. But this approach can leave an investor overexposed to equity volatility, because that 50/50 portfolio will see 90% of its risk driven by stocks. That's why investors should consider risk allocation, an approach that seeks to balance the risk in a portfolio.

But not all risk allocation approaches are the same, as Josh Kutin explains. Sometimes it makes sense for an investor to take more risk, and sometimes less. Having a system to identify these market states, and adjust investments accordingly, may help an investor to participate more in the upside when markets are doing well, while mitigating downside risk when markets are struggling. Josh discusses how we've identified four distinct market states and designed a series of rules to help determine when to shift portfolio allocations.

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