ASTOR INVESTMENT MANAGEMENT | Fundamentally Driven.

THE DYNAMIC DUO

When Dynamic and Strategic Asset Allocation Come Together

- Strategic asset allocation provides a solid framework for investors to pursue their long-term financial goals
- Current financial market conditions have changed the risk and return profile of asset allocation models
- Investors looking for certain return targets are faced with having to take substantially more risk to achieve the same returns as in the past
- Dynamic or tactical asset allocation strategies, when combined with a strategic core, can adapt investors' portfolios to current conditions— while maintaining the integrity of their long-term objectives
- The Astor Long/Short Balance portfolio is designed with an eye on macroeconomic trends, factors that are key to identifying a changing risk environment. Our "risk-dial" approach systematically adjusts risk exposure based on current economic factors

In today's evolving capital market landscape, the standard strategic or "60/40" asset allocation concept may not suffice to achieve the same golden nest egg as it has in previous decades. While still a good cornerstone for an investment plan to reach an objective, the 60/40 portfolio may be facing headwinds moving forward.

At Astor, we believe asset allocation is the key decision to building a portfolio. Strategic asset allocation applies modern portfolio theory, supported by historical data of risk, return, and correlation. The objective is to produce the optimal portfolio to generate a return for the average amount of risk an investor should experience over a particular time horizon, assuming market behavior is similar to history.
But that projected return does not occur in a smooth line and is subjected to changing external risk variables. The S&P 500 has returned approximately 9.25% annually since 1990—but with more than 15% standard deviation and two extraordinary 40%-plus drawdowns (see Table 1). Typical strategic portfolios are built on an average; they assume the extremes exist, but make no meaningful changes outside of periodic rebalancing, regardless of the environment.

Table 1: Risk/Return

	S&P 500 Total Return	Barclays Aggregate Bond Total Return	60/40 S&P 500 / Agg Bond
Annualized Return			
1990 - Present	9.26%	6.34%	8.10%
2000 - Present	4.17%	5.53%	4.72%
Annualized Standard Deviation			
1990 - Present	15.65%	3.91%	10.96%
2000 - Present	16.40%	3.43%	11.21%

**Data quarterly though Q2 2016. Source - Bloomberg*

In other words, strategic asset allocation takes into account "the best of times and the worst of times" and tells you to stay put, no matter what the current environment looks like. While good for discipline, that alone doesn't provide any comfort when a market event such as 2008 comes knocking.

In the current climate, one of the shifting economic trends causing concern for the 60/40 portfolio is the outlook for fixed income. Over the past 30 years, bonds did two things: generated solid returns for investors and served as a diversifying asset class against equity risk. Treasury and other high-quality bonds are yielding near multi-decade lows (see Table 2 below), meaning returns from coupons as well as capital appreciation in the foreseeable future may be diminished.

Table 2 : Risk/Return attributes in a 60/40 Portfolio

	Percentage coming from the S&P 500	Percentage Coming from Barclays Aggregate Bond
Return		
1990 - Present	68.65%	31.35%
2000 - Present	53.07%	46.93%
Risk		
1990 - Present	85.73%	14.27%
2000 - Present	87.77%	12.23%

**Data quarterly though Q2 2016. Source - Bloomberg*

In today's investment environment, realistic return targets are becoming harder to achieve without taking on more risk. The choice for many investors has been to take on more risk for the same yield[1]:

- In 1995, a 100% portfolio allocation to Treasury Bonds would have an approximate 7.5% target return, with a 6.5% standard deviation.
- In 2015, to have a 7.5% target return:
  - Treasury bonds were reduced to 12% of the portfolio
  - Equities were almost two-thirds of the portfolio
  - The standard deviation for the target 7.5% return portfolio rose to more than 17%

Dynamic Meets Strategic

While the need to generate solid returns has not changed, the addition of more risk will subject investor portfolios to more stress than in recent decades. Managing the risk component becomes a greater focus.

1. Source: Wall Street Journal/Callan Associates: http://on.wsj.com/1XN7VyS

Fortunately, strategies exist for investors to address changing market variables. They take a truly **dynamic** approach—making meaningful asset allocation decisions between risk and non-risk assets, as well as among non-correlating assets to further dampen volatility. The goal is to manage drawdowns and improve risk adjusted returns over time.

Dynamic/tactical strategies do not all look and act the same. There are many variables that can impact the outcome and risk/return profile of the strategy, as well as what that does for the investor's portfolio.
The objective of each approach is to decide whether to increase or decrease exposure to risk based on the evaluations from strategy inputs and in response to what's occurring in the current investment environment. The result, when combined with a total portfolio, is:

- To help manage volatility and/or risk
- To potentially contribute excess return to the total portfolio.
- To help investors have a peace of mind during adverse conditions

When created properly, dynamic strategies complement strategic, more passive allocations to help the total portfolio adapt to the current economic and market environment, thereby pursuing the long-term investment objective.

The Astor Investment Management Approach to Dynamic Asset Allocation Astor Long/Short Balanced Fund

At Astor, we have been focused on developing asset allocation solutions for more than a decade. We provide financial advisors and their clients with dynamic and active solutions that adapt well to investor concerns and shifting economic environments—especially when market forces create headwinds that can elevate risk and undermine returns for the traditional 60/40 portfolio.

Our flagship Long/Short Balanced strategy has aimed to capture an appropriate amount of the upside inherent in holding stocks over time, with a focus on capital preservation and limiting drawdowns that can occur during times of economic stress.

The cornerstone of the Astor philosophy is our proprietary, data-driven Astor Economic Index® (AEI), which allows us to gain what we believe to be a comprehensive view of the relative strength or weakness of the economy in current time. We do not seek to "time" the market, capturing short term "tops" and "bottoms." Rather, we focus on the medium and longer term, utilizing a variety of economic data points and the AEI to inform our asset allocation decisions.

- Astor Long/Short Balanced offers investors the potential to strengthen their portfolios and enhance the risk-adjusted returns: Aims to enhance traditional 60/40 portfolios with a strategic allocation (typically 20%) that acts as a “fulcrum” to periodically reweight and rebalance asset exposure
- Seeks to create an optimal mix of exposure to U.S. equity and up to eight asset classes with low correlation to the broader market
- Provides potential to increase returns, such through increased equity exposure during periods of economic strength
- Focuses on downside protection, strategically reducing risk as economy weakens, to minimize portfolio exposure to potentially wealth-destroying events (e.g., recessions)

A strategic allocation to Astor Long/Short Balanced can provide investors with the potential to capture returns at least commensurate with the overall market – while most importantly, managing volatility and reducing drawdown risk. The result is the potential to generate smoother returns over the longer term.

LSB is available in both a managed account format and a mutual fund.

To find out more about Astor's flagship Long/Short Balance Product. Call us at 312.228.5935 or email info@astorim.com

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The Astor Economic Index® is a proprietary index created by Astor Investment Management LLC. It represents an aggregation of various economic data points: including output and employment indicators. The Astor Economic Index® is designed to track the varying levels of growth within the U.S. economy by analyzing current trends against historical data. The Astor Economic Index® is not an investable product. When investing, there are multiple factors to consider. The Astor Economic Index® should not be used as the sole determining factor for your investment decisions. The Index is based on retroactive data points and may be subject to hindsight bias. There is no guarantee the Index will produce the same results in the future. The Astor Economic Index® is a tool created and used by Astor. All conclusions are those of Astor and are subject to change.

The Long/Short Balanced Composite is a multi-asset, tactical allocation strategy that exclusively uses exchange-traded funds (ETFs). The Composite will invest in a mix of asset classes, including equity, fixed income, commodities and currencies depending on the economic and market environment. During economic contractions, the Composite seeks to reduce risk by utilizing defensive positioning such as inverse equity and fixed income. The strategy may employ the use of unleveraged inverse exchange-traded funds, designed to track a single multiple of the daily inverse performance of a given index. For purposes of defining the composite of accounts, a minimum account size of $50,000 is imposed monthly. The benchmark is the HFRI Macro (Total) Index. The HFRI Macro (Total) Index is an unmanaged, equal-weighted composite of funds listed in the HFRI Database having either $50 million or greater in assets or a 12-month track record. HFRI is a registered trademark of Hedge Fund Research, Inc. Prior to 12/31/12, the benchmark was a 60%/40% blend of the S&P 500 Index and the Barclay's Capital U.S. Aggregate Bond Index, respectively, rebalanced monthly.

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