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Signature Estate & Investment Advisors LLC

Theodore E. Saadé, CFP®, AIF®, CMFC, Senior Partner

“What are the best ways to **diversify** and **spread out risk** in today’s market?”

By Theodore E. Saadé

Not only is portfolio rebalancing useful in today’s volatile markets, it is all but essential. Investors who intertwine strategic allocation with tactical allocation while keeping mindful of where we are in the economic cycle, will achieve a level of portfolio flexibility that maximizes the benefits of rebalancing.

With strategic allocation (SA), an investor sets target allocations for equities, fixed income and cash, and periodically rebalances his/her portfolio back to those targets based on investment returns and shortened time horizons for specific upcoming life events such as retirement as an example. In contrast, with tactical allocation (TA), the investor recognizes that micro-trends exist within any business cycle and that it’s prudent to take advantage of changes in investment outlooks.

Intertwining SA with a successful TA enables investors to capture additional profits by reallocating a percentage of assets toward investment styles or industry sectors with better outlooks or prospects. The chart on this page offers a visual depiction of the up-and-down business cycles of the market and what asset classes to hold during times of contraction and expansion.

With TA at the margin, an investor can take advantage of certain anomalies such as valuation-to-growth disparities within both bull and bear markets. TA allows for the ability to create extra value *within* a business cycle, since the goal is to return to the portfolio’s origi-

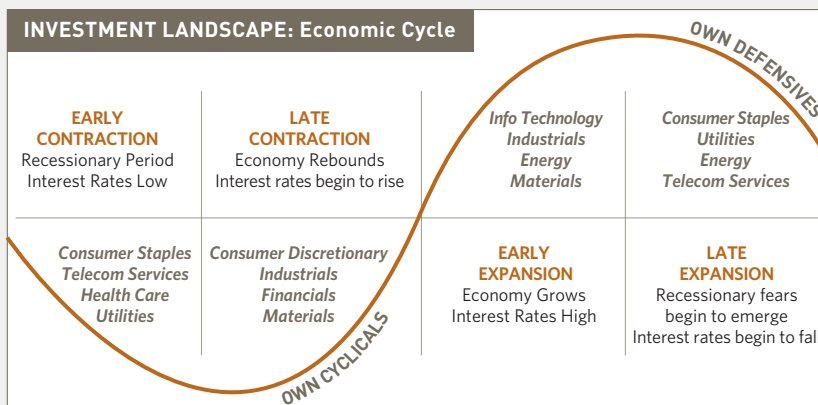
nal SA once desired short-term profits have been achieved.

In terms of a real-life implementation, recent examples shed light on the SA- vs. -TA discussion. While we have consistently held an allocation to both value and growth (as well as large-cap and small-cap), over the last decade there have been profitable overweights during this time span.

The overweight to growth and large cap in the late 1990s created value, as have the overweight to value and small cap since the start of the 2000s. The strategic allocation to stocks remained the same, yet the tactical overweight to varying investment styles added alpha. Likewise, industry sectors can also provide profitable trades (chart) as was evident in the overweight of energy and materials in 2007 and 2009, and the subsequent rotation to and from staples in 2008.

As to rebalancing fixed income investments, given the current interest rate cycle, we would suggest reducing overall maturity as measured by duration and consider adding assets less impacted by rising rates. Current candidates would include floating-rate bonds, managed futures, bank loans, equities with growing dividends and MLPs. The goal is to intertwine fixed income and equity so that both sides of the portfolio work cohesively together, to further reduce volatility and enhance overall results.

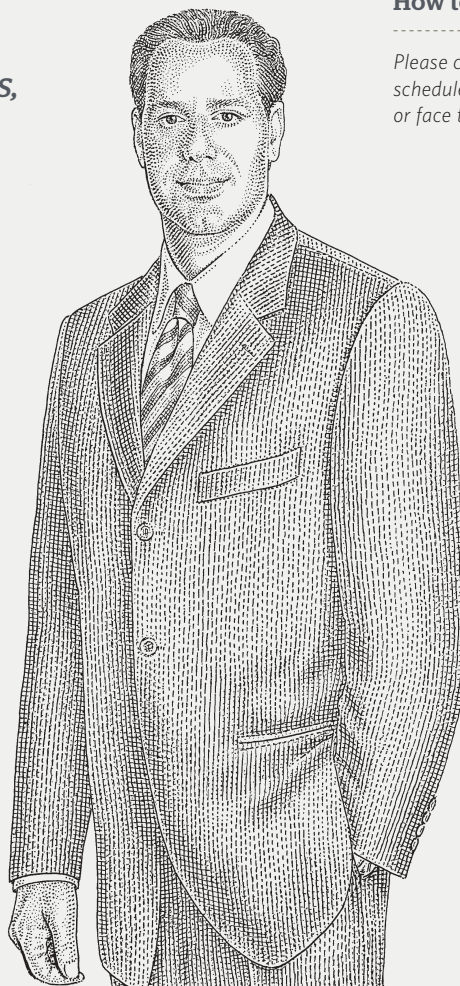
In sum, maximizing the benefits of rebalancing requires a more disciplined approach to portfolio management. It means examining a portfolio frequently and tactically, not only to weather the headwinds of an increasingly global economy, but to take advantage of them. ☐



Source: Signature Estate & Investment Advisors LLC

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—Theodore E. Saadé



How to reach Theodore E. Saadé

Please call my office at 310.712.2323 to schedule a meeting, either over the telephone or face to face.

I NEVER LEAVE HOME WITHOUT...

Kissing my wife and son goodbye

WHAT’S ON MY DESK...

Two computer monitors, phone, iPad and trade publications

MY HOBBIES ARE...

Traveling, skiing, exercising and spending time with my family

About Theodore E. Saadé

Theodore E. Saadé has been in the financial services industry since 1995. He joined Signature Estate & Investment Advisors LLC in 1997 as the firm was opening its doors. In less than 10 years, SEIA reached the milestone of \$1 billion in assets under management. Mr. Saadé is a Certified Financial Planner, Accredited Investment Fiduciary and a Chartered Mutual Fund Counselor. He received a bachelor’s degree in economics with a specialization in biochemistry from the University of California–Los Angeles. Mr. Saadé specializes in overall wealth and investment management strategies for affluent individuals, foundations and corporations. A long-time resident of Los Angeles, he is involved in multiple charities throughout Southern California.

Assets Under Management
\$3.4 billion (firm, as of 9/30/13)
\$200 million (Saadé, as of 9/30/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$5 million (Private Client Group)
\$2 million (estate planning)
\$500,000 (investment services)

Largest Client Net Worth
Confidential

Financial Services Experience
18 years

Compensation Method
Asset-based and fixed fees

Primary Custodian for Investor Assets
Charles Schwab & Co and Fidelity Investments

Professional Services Provided
Planning (estate, retirement, corporate, income tax and insurance), investment advisory and money management services

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ILLUSTRATION BY NANCY JANUZZI



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