Tactical Investing: The Substance Behind The Buzz

The term "tactical investing" enjoys an odd distinction: It's a buzzword in the investment world, and yet no one seems to agree on its exact definition.

As a concept, tactical investing is fairly simple. It refers to the practice of shifting assets from one asset class to another, either to avoid trouble or to seize emerging opportunities.

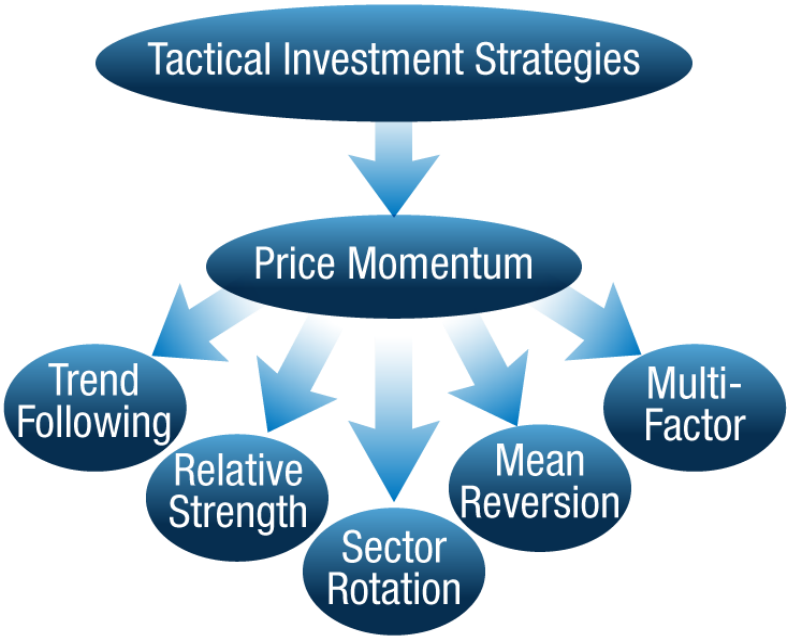
As pioneers in the tactical investing field, we at CMG find the confusion to be particularly frustrating. We passionately believe that incorporating tactical investing strategies can help enhance returns and increase overall stability within investors' portfolios.

So what is true tactical investing? Tactical investing involves identifying and profiting from price momentum across asset classes using a rigorous, evidence-based process. As that description suggests, tactical investing is rooted in a rigorous understanding of price momentum—the tendency of investments to exhibit persistence in their relative performance. Studies have shown that price momentum is largely driven by well-known investor behaviors such as slow reaction to new information, asymmetric responses to winning and losing investments, and the "herding" effect.

Research has also demonstrated that price momentum is a valid and reliable effect in the long term. Ned Davis Research calls it "among the most consistently reliable variables." Not every tactical decision based on momentum will have a positive outcome—it's not a silver bullet. But over time, the effect can reliably point the way to achieving specific investment goals.

To enhance their potential performance, tactical strategies may combine price momentum with broad economic factors such as interest rates and yield spreads. Some strategies combine price momentum with fundamental factors such as price-to-earnings or price-to-book ratios.

Tactical investing is manifestly different from market timing. Unlike market timing, true tactical strategies are grounded in a disciplined, systematic investment process. Tactical investors do not jump in and out the market based on short-term whims. Instead, they shift assets across asset classes in more modest measure, with time horizons that can span months or even years.



So how do advisors implement tactical investing for their clients? Some use it as a standalone investing approach, but most use tactical strategies to complement their strategic core portfolios. Incorporating one or more tactical strategies into a mix of diversified long-term investments may provide additional upside potential and a smoother ride for overall portfolios.

Advisors who work with trusted managers like CMG may find their clients reassured by an increased ability to navigate different market conditions. By outsourcing a portion of their investment management to an expert manager, advisors can focus more time and energy on serving their clients and growing their businesses.

There's no doubt that tactical investing may have "sizzle." But there's hundreds of academic studies and years of real time application behind that sizzle that can benefit client and advisor alike.

Want to know more?

Contact Tom Hannafin, 610-989-9090 x 145
tom@cmgwealth.com

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