EMPIRICAL
ASSET MANAGEMENT

Positioning Empirical Asset Management Asset Allocation Models

In a world of commoditized Asset Allocation models the Empirical Asset Management Asset Allocation (EAM AA) models are a refreshingly unique alternative and/or compliment to other models available on the market today.

The most interesting benefit of these next generation models may not be in their replacement of existing models but in their use alongside existing models as a diversification of methodology.

Existing Models available in the marketplace are typically offered in two forms**:**

1. Tactical models attempt to deliver excess performance and Alpha by attempting to predict market and asset class direction. They have the challenge of getting these calls correct – all the time. If their predictions miss the mark one or two times the effect can be quite detrimental – think Good Harbor or Windhaven.

2. Almost all **Strategic models** available today are based on the work of Harry Markowitz and Modern Portfolio Theory (MPT). That theory is based on static correlation of asset classes and static volatility (standard deviation) of asset classes. Truly, nothing could be further from the truth. When markets get tough most asset classes begin to act similarly (correlations typically increase significantly), as they all collapse together. This often occurs at exactly the wrong time, when volatility and risk increase you need diversification to benefit you and it often doesn't.

MPT Strategic models have benefited greatly from a 39-year decline in interest rates and it is likely the end of that type of rate decline. For 35 years from the end of WWII until 1982 rates rose persistently from 2% to 14%. If that scenario were to take hold MPT Strategic models may not work well in that type of environment.

Empirical accounts for and protects against these types of environments and Non-Normal risks, known specifically as Serial Correlation, Fat-Tails, and Correlation Breakdown.

Diversification:

Combining strategic EAM AA models with Tactical models serves to lower overall risk and provides diversification in the event that the tactical signals are off the mark.

By combining EAM AA models with other MPT dominated Strategic models, the natural diversification between MPT Strategic and non-MPT Strategic models with our non-normal risk focus will serve to lower overall risk as well and provides more protection against non-normal risks that are often ignored in the market place.

Learn More by visiting our website, www.empiricalam.com.