Tashkent State University of Economics

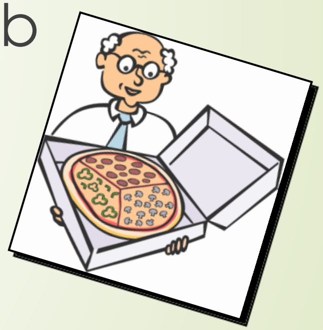
# Household finance

Lecture 8: Some behavioral tools.

Lecturer: professor Otabek Karshiev

***"Asset allocation is the process of combining asset classes such as stocks, bonds, and cash in a portfolio in order to meet your goals."***

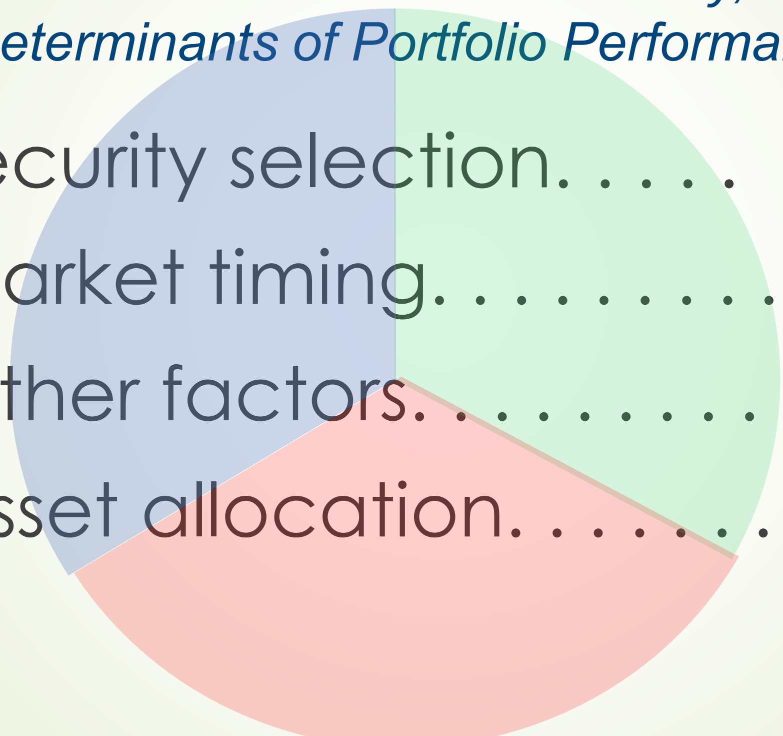
- Strategic asset allocation: Your required job
  - Change slowly, less risk near target date.
- Tactical asset allocation: Leave to pros
  - Market, economic predictions.
  - Active fund managers make tactical changes so you don't have to!



# What Matters When Investing?

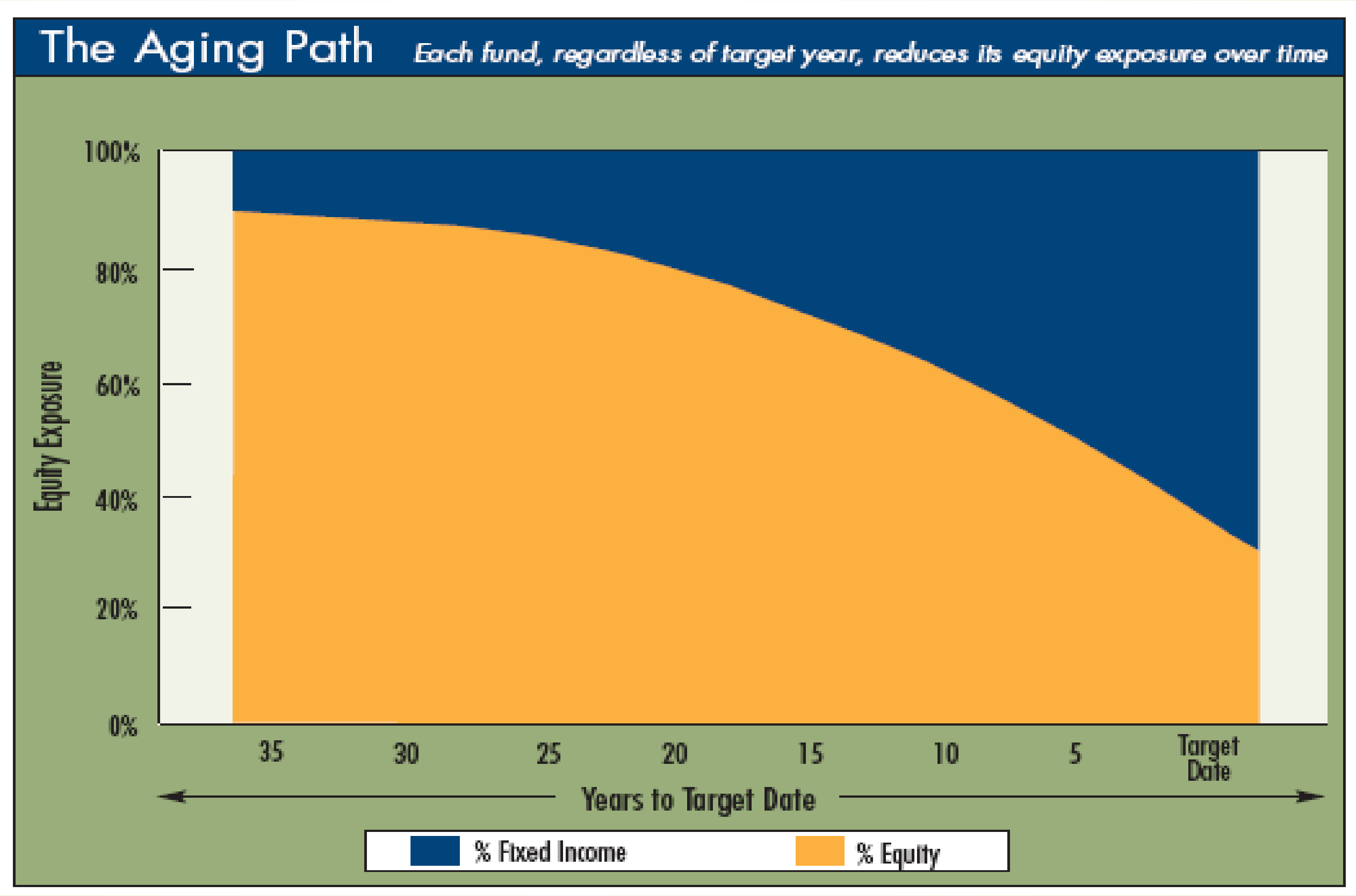
*Based on Controversial Brinson Study,*
*“The Determinants of Portfolio Performance” (1986)*

- Security selection. . . . . 4.6%
- Market timing. . . . . . . . . . 1.8%
- Other factors. . . . . . . . . . . 2.1%
- Asset allocation. . . . . . . . 91.5%



# Your IPS

## *4a. Portfolio Maintenance – Portfolio Aging*



## 4b. Portfolio Maintenance – Rebalancing

# Your IPS

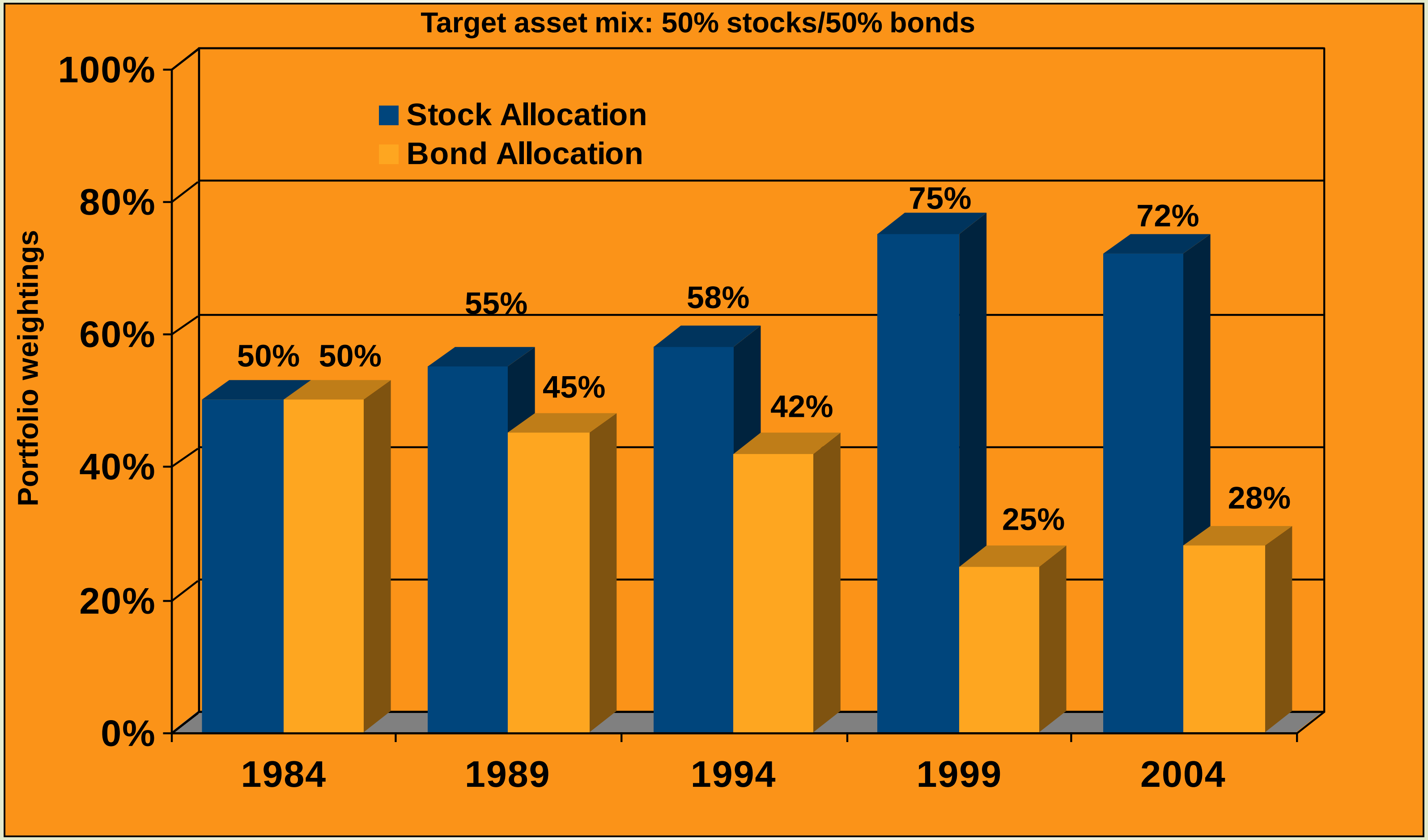
- Make it a policy driven, automatic process to avoid inadvertent market timing

- Predetermine rebalancing triggers
  - asset drift - ex: of 5%
  - on schedule - ex: birthday, end of Q

***What it feels like:***
***Sell winners & buy losers!***

# Importance of Rebalancing

*1984–2004*




Stocks: 50% large and 50% small company stocks.
Bonds: intermediate-term government bonds.

# Your IPS

## *5. Accountability*

- How much investing work are you willing & able to do?
- How much work will you hire out?
- Have an investment journal as record of reasons for decisions.
  - Record what, when, WHY.
  - What is your rational?

# Condensed Personal IPS Example

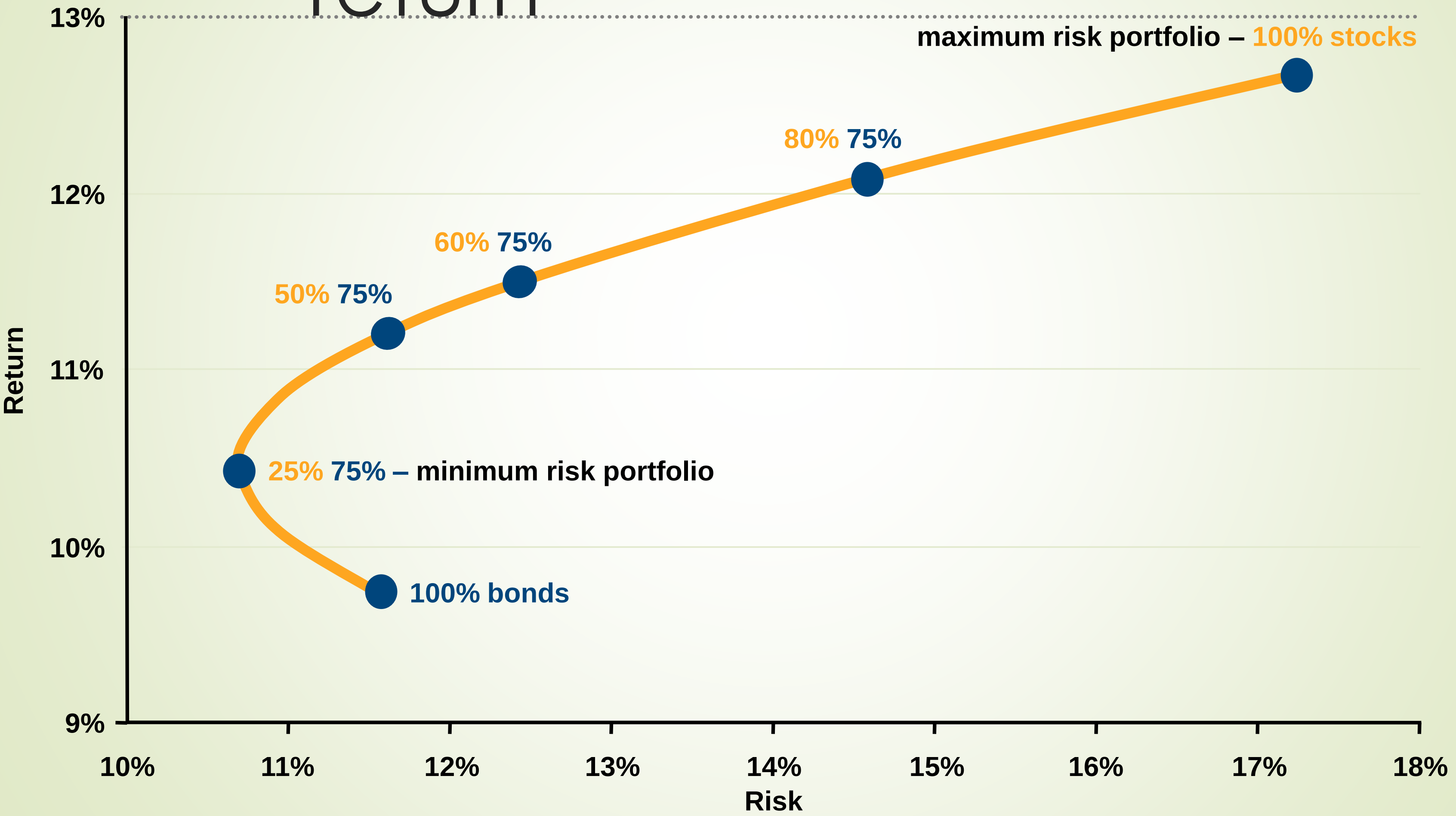
1. Purpose – Target Date:
   - Provide early retirement income 2020 to 2030
2. Risk Tolerance:
   - Moderate
3. Diversification, Asset Allocation:
   - 70% equity (10% foreign), 10% Core Bond, 20% PLUS
4. Portfolio maintenance:
   - Age portfolio allocation each 5 years
   - Rebalance Annually
5. Accountability:
   - Keep journal, confer annually

## Institutions Follow *Uniform Prudent Investors Act*

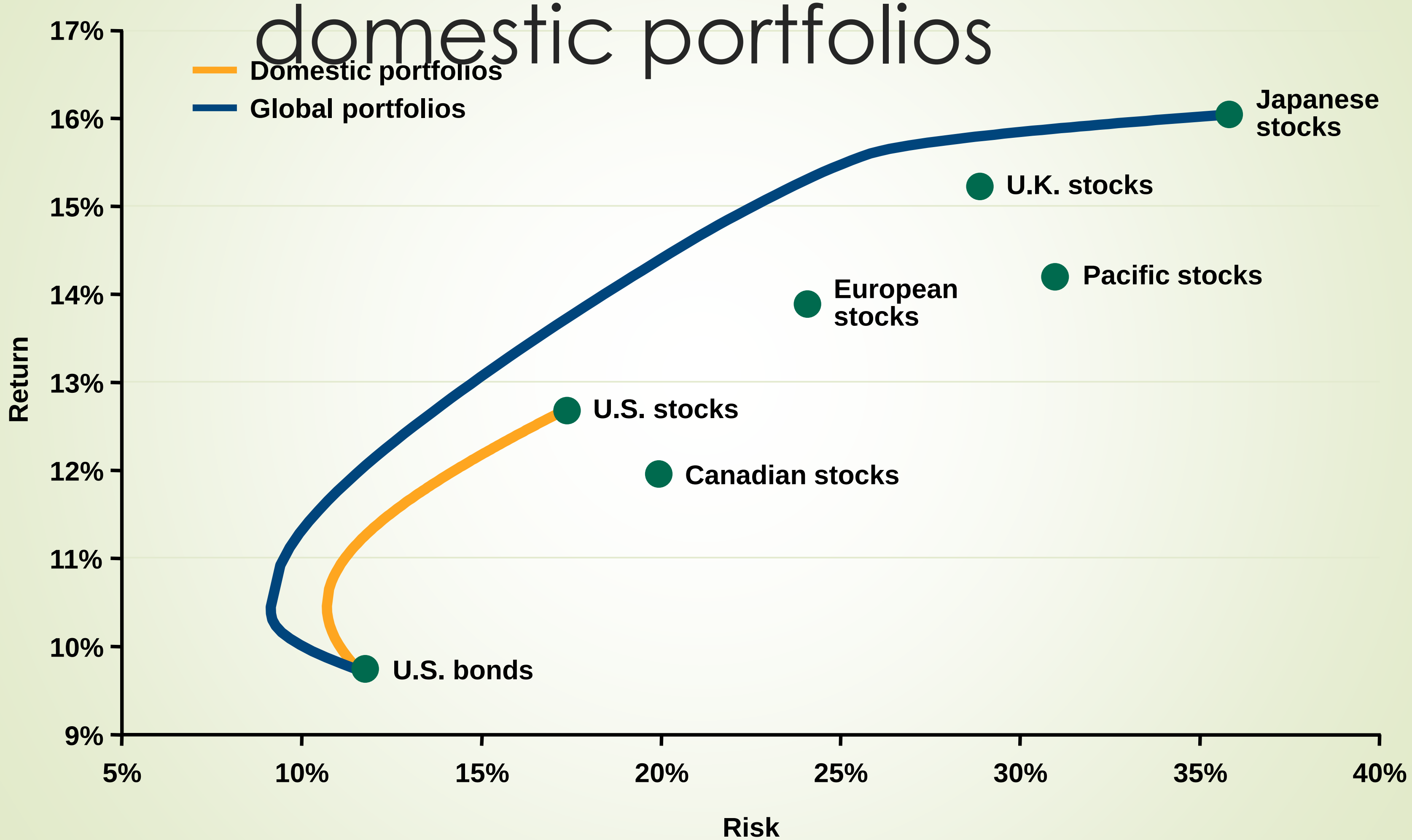
- Establishes *Modern Portfolios Theory* as basis for prudent investing.
- Risk/return relationship is basis of portfolio management.

***43 States & DC require following U.P.I.A.***

# Stocks and bonds: risk versus return



# International enhances domestic portfolios



# ICMA RC: Adding Investment Value

**Index Funds**
Low cost investment options seeking to replicate investment performance, characteristics of certain benchmarks.

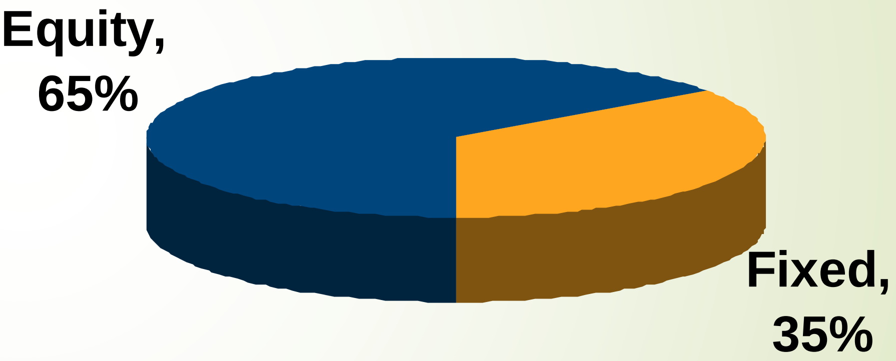
**VantageTrust Mutual Fund Series**
Array of popular investment choices offered by other financial firms.

**Actively Managed Funds**
Our investment analysts select, monitor sub-advisers for each Actively Managed Fund.

**Model Portfolio Funds**
Pre-set diversification and automatic rebalancing for the most conservative to aggressive investor.

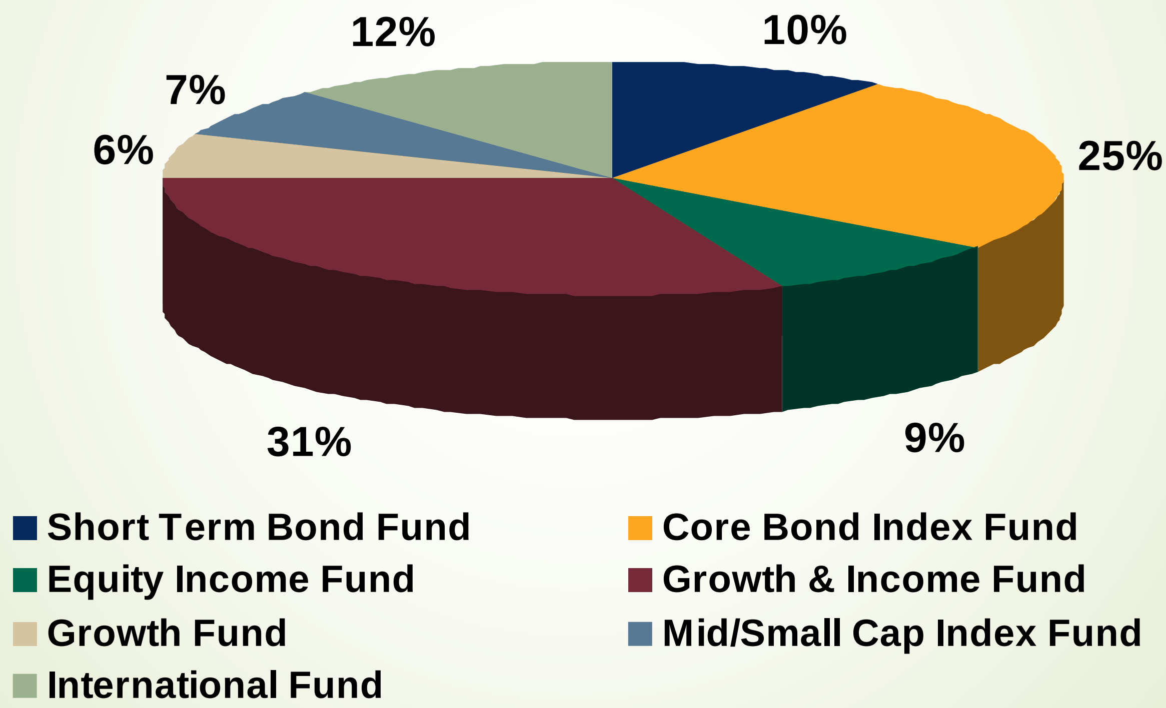
**Milestone Funds**
Pre-set diversification, “aging,” and automatic rebalancing for investors looking for one-step retirement investing.

# Step 1: Determine Asset Allocation



# Step 2: Allocate to Fund Styles

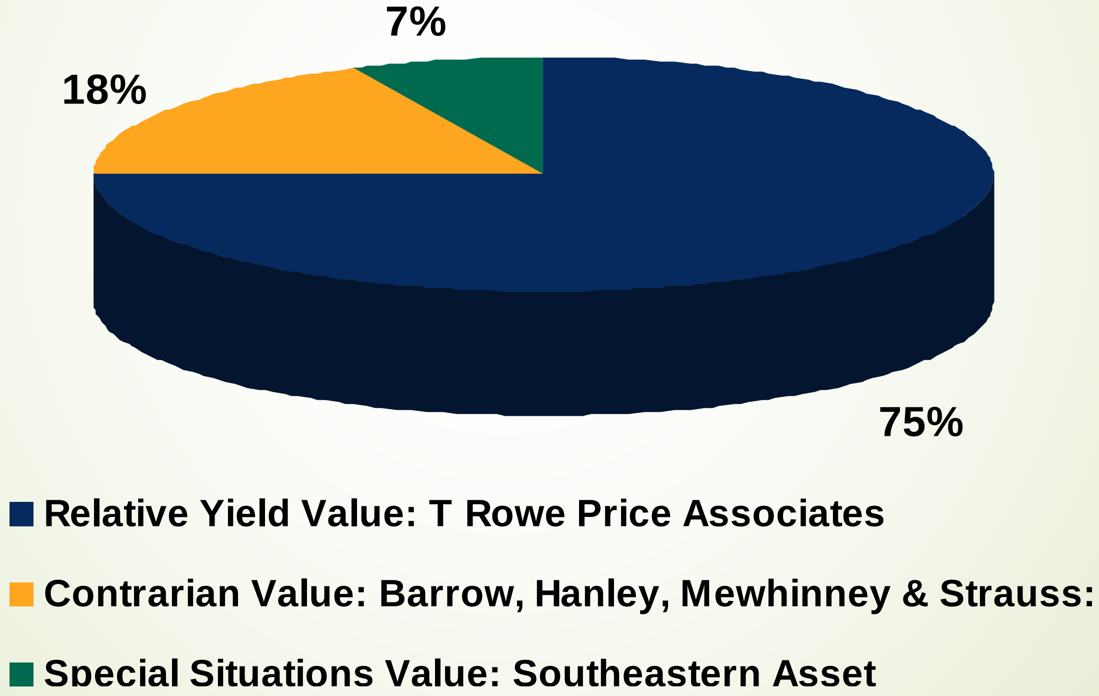
*Milestone 2018*




[1] See disclosure at the end of this presentation.

# Step 3: Select Managers for Each Style

## Equity Income Portion



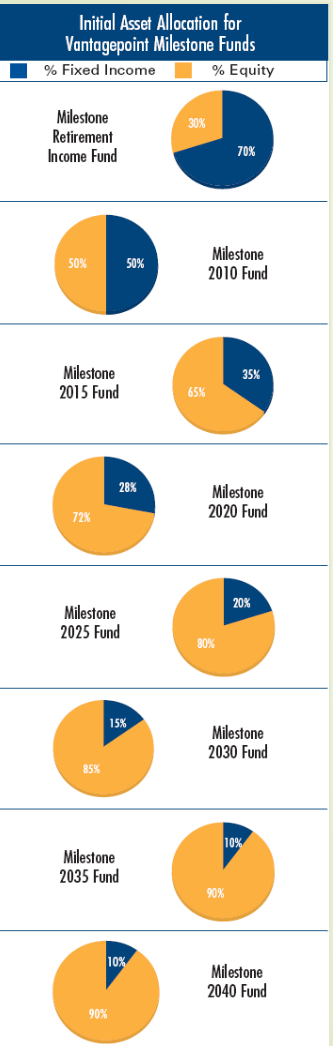

[1] See disclosure at the end of this presentation.

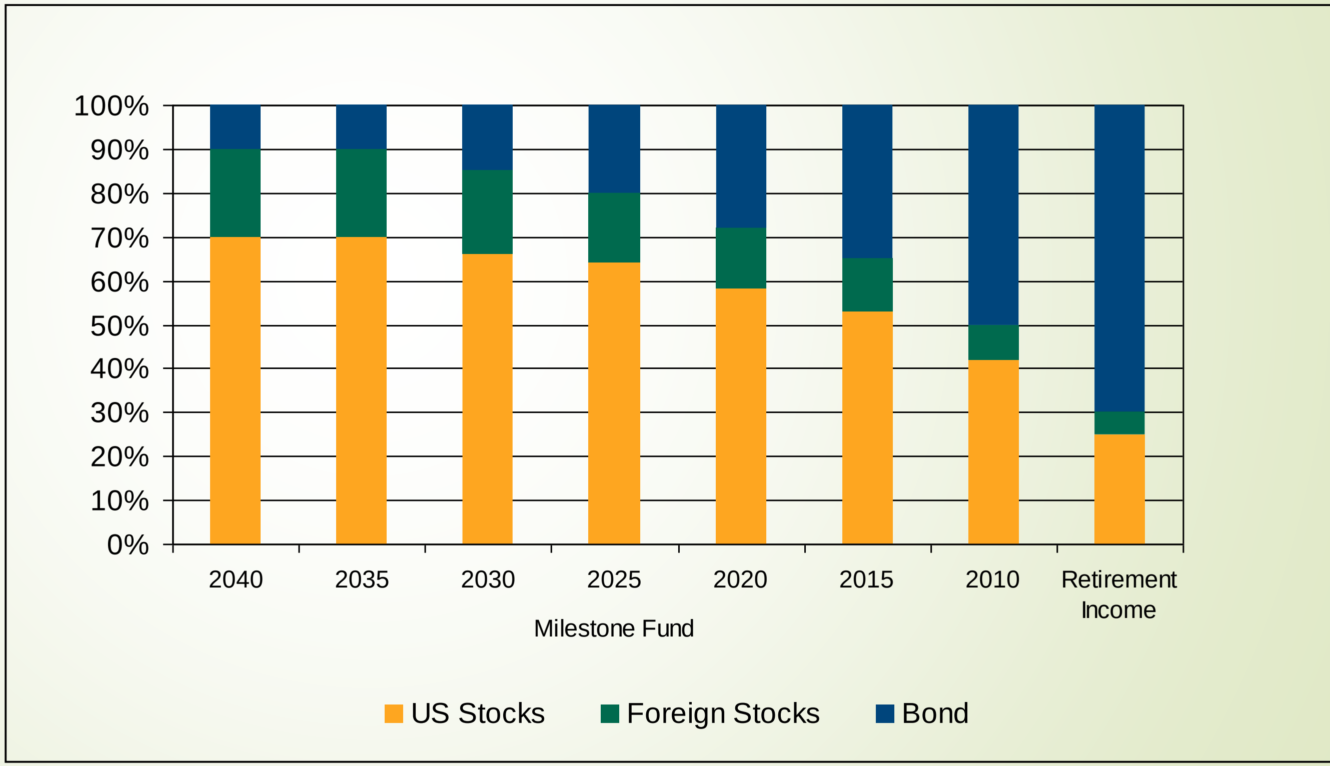
# 2017 Milestone Fund[1] Management Team

- **Short Term Bond Fund**
  - Payden & Rygel
  - STW
- **Core Bond Index Fund**: Lehman Bros Aggregate Bond Index
- **Equity Income Fund**
  - Contrarian Value: Barrow, Hanley, Mewhiney & Strauss
  - Special Situations Value: Southeastern Asset Management
  - Relative Value Yield: T Rowe Price
- **Growth & Income Fund**
  - Selected Opportunities: Capital Guardian Trust
  - Blue Chip Growth: T Rowe Price
  - Yield Focused Value: Wellington Management Company
- **Growth Fund**
  - Aggressive Growth: Fidelity Asset Management
  - Concentrated Growth: Peregine Capital Management
  - Contrarian Growth: Tukman Capital Management
  - Thematic Growth: Westfield Capital Management
- **Mid/Small Cap Index Fund**: DJ Wilshire 4500
- **International Fund**
  - Core Equity: Capital Guardian Trust
  - International Growth Opportunities: Artisian Partners

# Step 4. Age portfolio

**Milestone Funds**[1] ***maximum Value Added****: Pre-set diversification, "aging," automatic rebalancing*

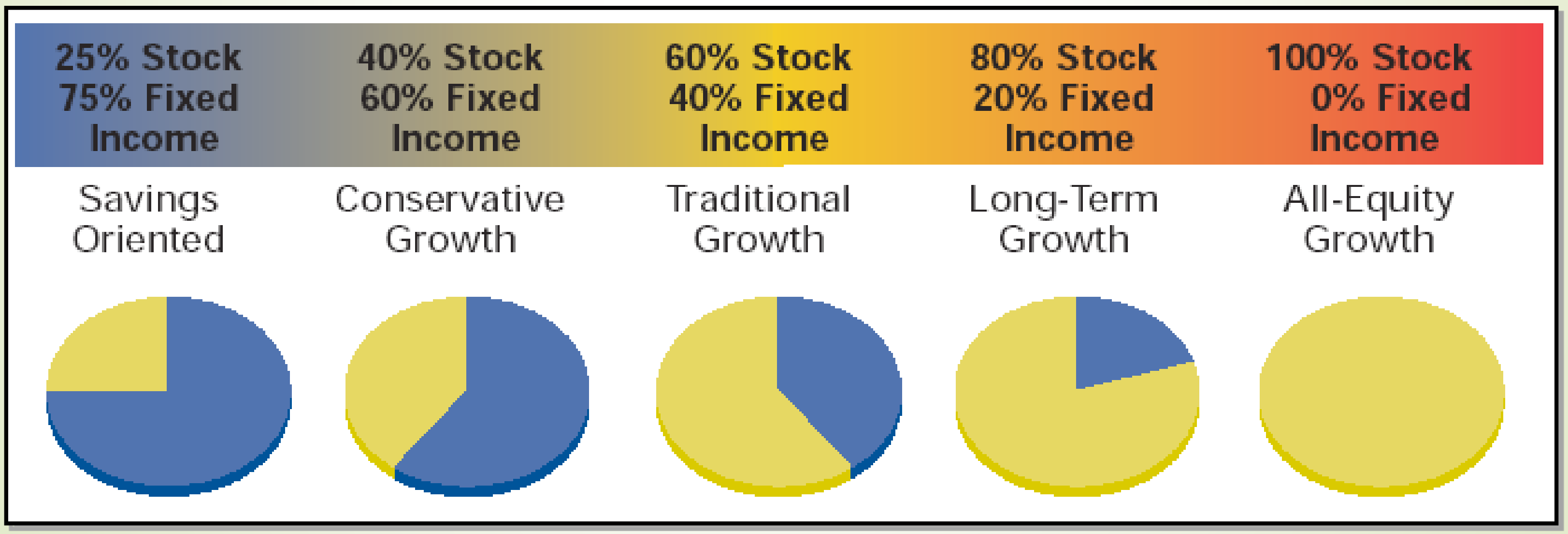


# Model Portfolios[1]

***Value Added**: Pre-set diversification and automatic rebalancing*

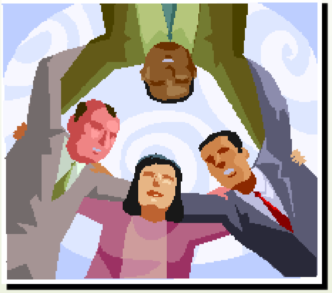
**Conservative** **Aggressive**

# Actively Managed Funds

***Value Added**: Investment analysts select, monitor sub-advisers.*

- Vantagepoint Money Market Fund
- VantageTrust PLUS Fund
- Vantagepoint Short-Term Bond Fund
- Vantagepoint US Government Securities Fund
- Vantagepoint Asset Allocation Fund
- Vantagepoint Equity Income Fund
- Vantagepoint Growth & Income Fund
- Vantagepoint Growth Fund
- Vantagepoint Aggressive Opportunities Fund
- Vantagepoint International Fund



[1,2,3] See disclosures at the end of this presentation.

# A Tool for the "Do-It-Your-(almost)-Selfer"

## ***Online Advice from*** MORNINGSTAR®


# Put your effort where it matters the most:

- ✓ You can't control the markets; timing is likely to reduce return, nit add to it.
- ✓ Investment results depends on investment behavior.
- ✓ Successful institutional investors take emotion out of investing behavior with an *Investment Policy Statement*
- ✓ Use a *Personal Investment Policy Statement* to guide your investment behavior, shielding you from emotional investing.
- ✓ Use RC's *value added* to help make technical investing decisions.