

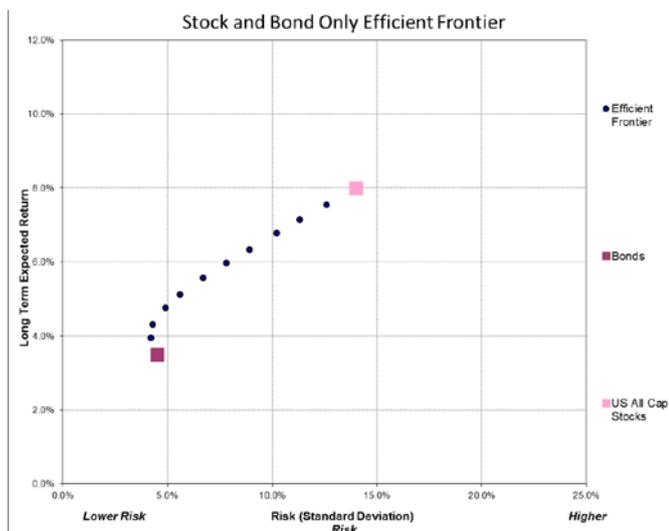
GLOBAL STRATEGY UPDATE

Tradition Capital Management

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Global diversification can improve a portfolio's expected risk reward profile. The historical U.S. individual investor typically invested in a mix of U.S. stocks and bonds. This strategy was hugely successful post-World War Two as the U.S. established itself as the largest and most dominant economy on the globe. However, with secular growth slowing and interest rates near all-time lows, an exclusively stock and bond portfolio is unlikely to provide returns approaching its historical levels. For modelling and cash flow analysis purposes, we expect the broad U.S. stock market to provide returns of approximately 8.0%, modestly below long-term historical norms, and Investment Grade Bonds to provide an even lower approximated expected return of only 3.5%. (Please see full disclaimer at the end of this document.)

Diversification across stocks and bonds has and continues to be a method to lower portfolio volatility (Standard Deviation is a typical measure of risk). We have plotted a mix of stocks and bonds on the graph below. The vertical axis is the expected return, E(R). The horizontal axis is the expected standard deviation, E(SD). The graph below is commonly referred to as the "efficient frontier" for a two asset class world that only has stocks and bonds.

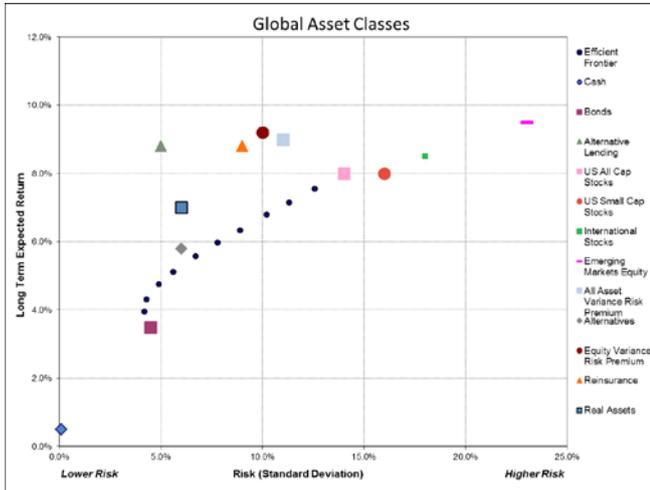


Stock and Bond Only Efficient Frontier			
Asset Class Mix		Long Term Expected Return	Expected Risk
US All Cap	Bonds		
0%	100%	3.5%	4.5%
10%	90%	4.0%	4.2%
18%	82%	4.3%	4.3%
28%	72%	4.8%	4.9%
36%	64%	5.1%	5.6%
46%	54%	5.6%	6.7%
55%	45%	6.0%	7.8%
63%	37%	6.3%	8.9%
73%	27%	6.8%	10.2%
81%	19%	7.2%	11.3%
90%	10%	7.6%	12.6%
100%	0%	8.0%	14.0%

As depicted in the graph above the greater the stock allocation, the higher the expected risk and the higher the expected return. As an investor mixes more bonds into the portfolio, both the expected risk and the expected return move lower, until the allocation approaches 82% bonds and 18% stocks; then expected returns continue to head down but expected risks barely budge. More specifically, the expected return of a portfolio of 82% bonds and 18% stocks is 4.3% and has a similar expected risk to a portfolio of a 100% bonds, but this 100% bond portfolio has an expected return of only 3.5%. Moving entirely to bonds lowers

expected returns without lowering risk. The good news is we are not limited to investing exclusively in U.S. stocks and bonds. In a globally diversified portfolio, we have the option of including other asset classes to diversify and improve the expected risk-return profile.

see, the diversification manages to improve expected return at the same level of expected risk compared to the stock and bond only efficient frontier; thus the diversified global strategies have expected return and expected risk profiles that are better than the typical



The graph above shows these asset classes plotted next to the Stock and Bond Only Efficient Frontier (SBOEF). One should note that some are below the SBOEF, but some are above. However, expected returns and expected risks are only part of the story. Each asset class has a different correlation with every other asset class. (Correlation is a measure of how assets move together) The higher the correlation, the more the moves are similar in magnitude and direction. When we diversify across asset classes that have low or moderate correlations, the diversification will lower overall portfolio expected risk (standard deviation).

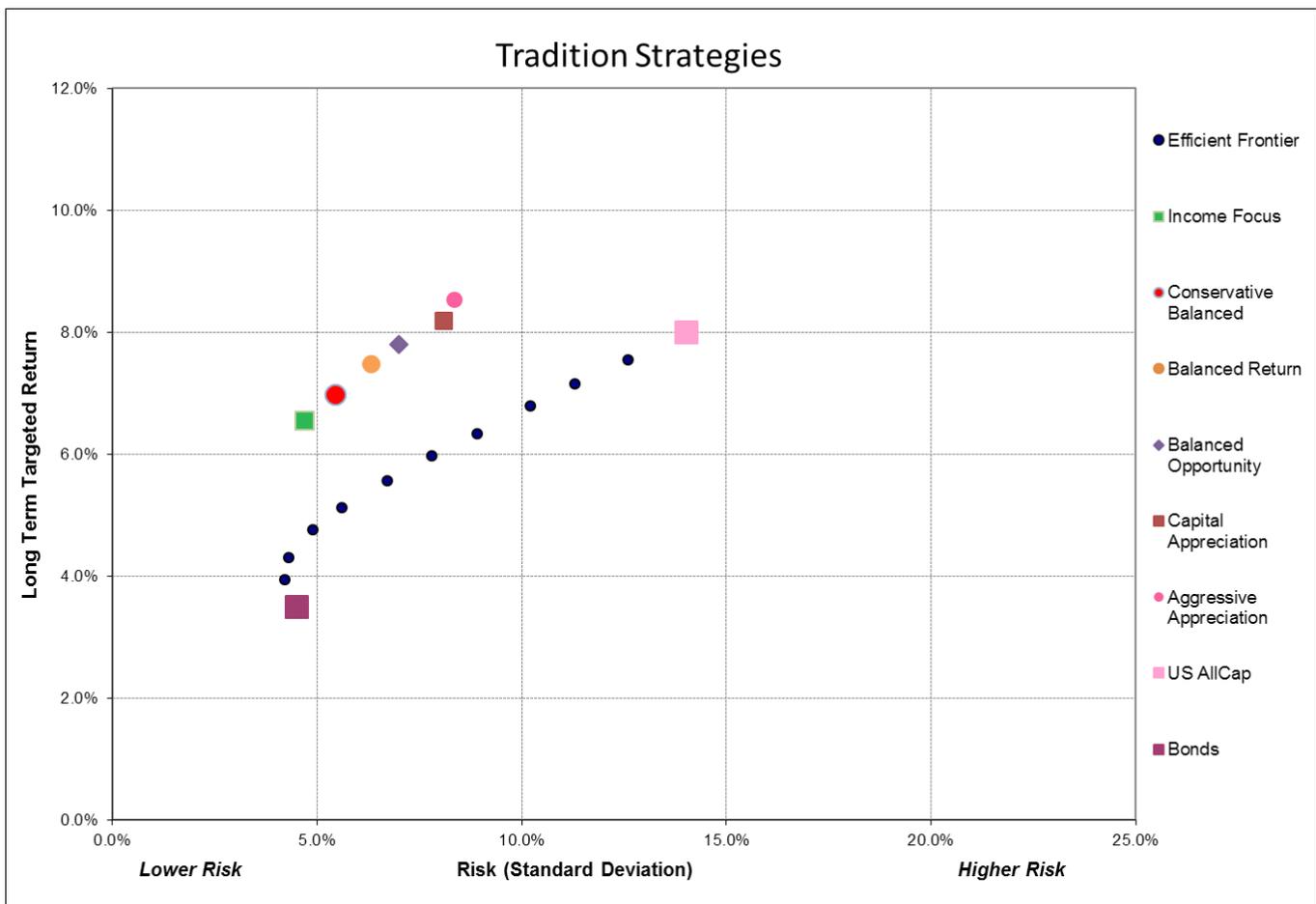
We have built several model strategies that take advantage of the benefits of diversification and less than 1.0 correlation.

The table to the right outlines the expected return and expected risk parameters for these strategies. Please see full disclaimer at the end of this document keeping in mind that these are not projections, but are only used for modelling and long-term cash flow analysis.

These strategies have improved expected risk and expected return metrics versus the Stock and Bond Only Efficient Frontier. The graph below shows how these strategies compare to the SBOEF. As you can

Asset Class Returns		
Asset Class	Long Term Expected Return	Expected Risk
Cash	0.50%	0.10%
Bonds	3.50%	4.50%
Alternative Lending	8.80%	5.00%
US All Cap Stocks	8.00%	14.00%
US Small Cap Stocks	8.00%	16.00%
International Stocks	8.50%	18.00%
Emerging Markets Equity	9.50%	23.00%
All Asset Variance Risk Premium	9.00%	11.00%
Alternatives	5.80%	6.00%
Equity Variance Risk Premium	9.20%	10.00%
Reinsurance	8.80%	9.00%
Real Assets	7.00%	6.00%

Model Strategies		
Strategy	Long Term Targeted Return	Expected Risk
Income Focus	6.55%	4.67%
Conservative Balanced	6.99%	5.44%
Balanced Return	7.48%	6.32%
Balanced Opportunity	7.80%	7.00%
Capital Appreciation	8.20%	8.08%
Aggressive Appreciation	8.54%	8.35%



While the future, and specifically, returns, are unpredictable, looking at how asset classes relate and work together is a valuable process that helps us build better portfolios. The expected returns and expected

risks are not forecasts but are essential tools as we strive to build portfolios that have strong expected risk/expected return profiles.

DISCLAIMER: For illustrative and discussion purposes only, to show possible return profiles of various asset classes. This illustration does not reflect historical returns nor is it a projection of future returns. Past performance is not indicative of future results. Investing involves risk and may result in losses. At a given time, any risk asset class or asset may lose value and result in substantial losses. Inflation risk is an additional risk for financial assets. This illustration is not GIPS compliant and is shown only for illustrative purposes. Tradition does not make any assertions, estimates or guarantees about future results. Future results are unpredictable and could result in losses. Expected return and expected risk are not forecasted returns or risks but are only statistical definitions for modeling purposes. The above is not meant to be a full or complete discussion of all the risks involved in investing as that is beyond the scope of the article; many of the risks involved in investing are not specifically named above but nonetheless still exist.