

Discretionary Management Services, LLC

Insights Into Our GTAA Investment Process

By Tom Woolwine, President, December 2013

This paper summarizes our three-step Global Tactical Asset Allocation (GTAA) investment process.

Step 1 – Global Asset Allocation Policy

- Establish goals and objectives and define benchmark targets/ranges for client portfolio
 - Ensure suitability of multiple goals: absolute, relative, peer, and risk-adjusted
 - Dynamic consideration of asset classes able to help strategically
 - Enhance guidelines to benefit from opportunities in sub-classes including style
- Evaluate economic conditions using DeMarche’s strategic forecast (next three to five years) developed by the Asset Allocation Committee. This incorporates our proprietary “supercycle” analysis, which identified differences in the interaction and performance between asset classes
 - GDP and earnings growth forecasts
 - Inflation, interest rates and Fed policy
 - Demographics, unemployment and debt
- Evaluate market conditions using proprietary and external measures of valuation, spreads, momentum and liquidity
 - DeMarche expected return factor model
 - Conditional probability framework
 - Stock market phase indicator

Step 2 – Portfolio Construction and Implementation

- Select active managers to manage core sub-allocations using DeMarche Manager Review Committee (MARC) approved managers universe
 - MARC modeled after a traditional securities research department
 - Committee members average nearly 30 years of investment experience
 - Due diligence is centralized within a committee structure
 - Top down and bottom up analysis
 - Qualitative and quantitative analysis
 - Extensive fundamental research including creating unique profiles
 - Research emphasis on Leading Indicators of performance
 - Factor model forecast expected good/bad performance by manager style
- Execute tactical shifts among strategies and styles within and between asset classes (i.e., large/small cap, growth/value, treasury/credit, long/short duration, etc.) based upon portfolio managers reaching consensus on opportunities in current environment
- Utilize ETFs/index funds for tactical moves to minimize frequency of disruptions to managers

Step 3 – Ongoing Oversight and Risk Management

- Meet at least weekly to review portfolio position (sub-classes and sub-advisers) versus policy targets and ranges to ensure prudent monitoring, reporting and control procedures
- Have buy and sell orders in place to take advantage of market changes occurring between meetings
- Focus on being early at recognizing changes in direction and valuation of broad markets and leadership of sectors and factors
- Emphasize downside protection and capital preservation as losses hurt more than gains heal

If you are interested in learning more about DMS outsourcing and GTAA services, please contact me at (913) 981-1345.

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