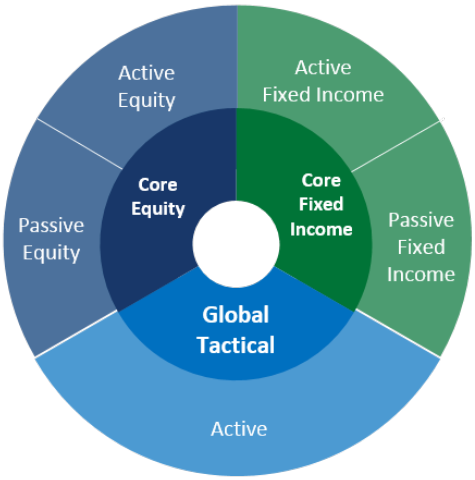
How To Use a Tactical Strategist In an UMA

The following is our opinion on how to construct a simple, easy to use UMA portfolio for advisors who are trying to incorporate strategic and tactical management into their client portfolios.

After working with clients for over 35 years, we have learned that ALL of the attributes discussed below belong in a well-constructed portfolio; a portfolio that can smooth out market extremes, allow clients to stay invested over full market cycles and avoid making emotional, poorly timed decisions. How?

Portfolio design starts with a core equity and core income premise. Clients want growth, income and safety in their portfolios…the order and importance of these factors will determine the ultimate asset mix for each investor. Once the Core Equity and Core Fixed Income allocations are determined, we need to add diversifying asset classes and geographies. But which ones? When? How much? These answers depend on the market environment at the time. Thus the third element of portfolio construction needs to include a Global Tactical allocation that can move funds into asset classes only when they present opportunity. Why remain invested in an asset class when it is going down?

Sample Portfolio



What is the objective of each sleeve?

Passive Equity:	Strategic Core Equity allocation that seeks to give a close return to the index exposure that is sought (I.E.: S&P 500® Index for U.S. focused investors or S&P Global 1200 Index for more global exposure).
Active Equity:	Tactical Core Equity allocation that seeks to give a close return to the same index when markets are healthy, but also seeks to avoid a significant portion of market failures through a rules-based selling process.
Global Tactical:	An opportunistic global growth allocation that will seek to rotate into healthy asset classes and avoid allocating to areas undergoing periods of market failure.
Passive Fixed Income:	Strategic Core Income allocation that seeks to give a close return to the index that is sought (I.E.: Barclay's U.S. Aggregate Bond Index for U.S. focused investors or Barclay's Global Aggregate Bond Index for global exposure).
Active Fixed Income:	Tactical Core Income allocation that seeks to give a close return to the same index when markets are healthy, but also seeks to avoid a significant portion of market failures through a rules-based selling process.

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What has this construct achieved? Diversified growth portfolios that have the ability to avoid the majority of large bear market declines.

We find that investors' have two simple goals: they want to make money AND avoid gut wrenching major portfolio losses. We have built a conceptual portfolio construct that should have at least two of the three allocations giving investors the opportunity for reasonable returns in almost any investment environment. In most market conditions, 100% of this construct can provide growth for clients. Two thirds of this portfolio is also designed to do what most investors want: avoid large portfolio losses. While each advisor must determine the ultimate asset mix and risk appropriateness for each client, the table below continues the theoretical construct process.

Advisor determined Stock/Bond Splits			Ultimate UMA Portfolio Allocations (allowing for 2% money markets)				
	Equity*	Fixed Income	Core Equity		Tactical*	Core Fixed Income	
	Percent Allocation		Passive	Active	Global	Passive	Active
Portfolio 1	85.0%	15.0%	27.8%	27.8%	27.8%	14.7%	0.0%
Portfolio 2	70.0%	30.0%	22.8%	22.8%	22.8%	13.0%	16.4%
Portfolio 3	60.0%	40.0%	19.6%	19.6%	19.6%	19.6%	19.6%
Portfolio 4	50.0%	50.0%	16.4%	16.4%	16.4%	24.5%	24.5%
Portfolio 5	40.0%	60.0%	6.6%	16.4%	16.4%	29.4%	29.4%

*Since Global Tactical can be all equity we assume it is at all times for proper risk tolerance reasons.

The decisions are thus broken down in four easy steps:

1) Determine the risk profile of each investor and set the allocation to one of the portfolio models above.
2) Determine if the investor's geographic orientation and measurement benchmark is U.S based (S&P 500© Index) or Global (S&P Global 1200 Index). The same goes for the Core Fixed Income allocation.
3) Choose your management teams and indexes to allocate to.
4) Take the account size and multiply the percentages under "Portfolio Breakdown". The portfolio is now complete!

This is one view on building a UMA using both strategic and tactical management. Sometimes simple is better! Our goal is to help you and your clients build portfolios that can stand the test of time and smooth the ride along the way. Please feel free to contact a regional sales consultant at salessupport@investbcm.com or dial 844-401-7699 at your earliest convenience.

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