WHICH INSTITUTION HAS THE BEST ASSET ALLOCATION MODEL?

If you're like most investors, you're asking the wrong questions.

Cambria was chatting with a group of advisors back in 2016, and a question arose. We'll paraphrase:

> *"We get a steady stream of salespeople and consultants in here hawking their various asset allocation models. Frankly, it can be overwhelming. Some will send us a 50-page report, all to explain a strategic shift from 50% equities to 40%. I want to do right by my clients, but I have a hard time reading all the various research pieces and models, let alone reconciling their differences. Any thoughts?"*

The advisor followed up by emailing Cambria a summary of all of the institutional asset allocation models by the Goldmans, Morgan Stanleys, and Deutsche Banks of the world. And as you'll see, they are HIGHLY different. Morgan Stanley says only 20% in US stocks, while Silvercrest says 41%! Brown Advisory says 10% in emerging markets and JPMorgan 0%.

STEADY DOES IT Forty of the nation's leading wealth management firms only modestly shifted their asset allocations this past year, a surprise considering how volatile the markets have become. Their argument: When almost all asset classes are tanking, your only smart move is to calmly revert back to neutral positions that shadow the benchmarks.

	STOCKS				FIXED INCOME					ALTERNATIVES						CASH
	Total	U.S.	Devel-oped	Emerging	Total	U.S.	High Grade/ HY	Devel-oped	Emerging	Total	Real Estate	Commodities	Hedge Funds	Private Equity	Other	Total
Atlantic Trust	49.0%	38.0%	9.0%	2.0%	27.0%	27.0%	25/2	0.0%	0.0%	22.0%	1.0%	0.0%	19.0%	2.0%	0.0%	2.0%
BB&T	59.0	27.1	27.1	4.7	36.0	32.4	30.6/1.8	3.6	0.0	5.0	0.0	0.0	5.0	0.0	0.0	0.0
Bernstein GWM	46.0	32.0	11.0	3.0	35.0	35.0	35/0	0.0	0.0	15.0	1.0	2.0	9.0	3.0	0.0	4.0
Bessemer	47.8	27.2	17.6	3.0	19.9	19.5	18.6/.9	0.4	0.0	26.0	6.0	0.0	10.0	10.0	0.0	6.7
BlackRock	55.0	31.0	20.0	4.0	29.0	26.0	26/3	0.0	3.0	16.0	3.0	0.0	7.0	6.0	0.0	0.0
BMO Private Bank	57.0	30.0	21.0	6.0	16.0	16.0	16/0	0.0	0.0	20.0	2.0	2.0	6.0	0.0	10.0	7.0
BNY Mellon	46.1	29.1	13.5	3.5	26.3	26.3	24.3/2	0.0	0.0	27.6	1.5	1.2	11.0	10.0	3.9	0.0
Boston PWM	52.5	29.0	19.0	4.5	30.0	28.0	0	2.0	0.0	15.0	0.0*	0.0*	8.0	7.0*	0.0	2.5
Brown Advisory	47.0	27.0	10.0	10.0	20.0	20.0	14/6	0.0	0.0	28.0	5.0	2.0	13.0	6.0	2.0	5.0
Brown Brothers Harriman	56.0	40.0	9.0	7.0	24.0	24.0	24/0	0.0	0.0	17.0	4.0	0.0	3.0	6.0	4.0	3.0
Capital Group	50.0	22.0	21.0	7.0	35.0	35.0	30/5	0.0	0.0	15.0	0.0	0.0	10.0	5.0	0.0	0.0
Citi Private Bank	40.1	18.7	16.6	4.9	27.9	14.1	12.9/1.2	13.2	0.6	28.0	5.0	0.0	18.0	5.0	0.0	4.0
City National Rochdale	54.0	46.0	3.0	5.0	42.0	38.0	26/12	1.0	3.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0
Deutsche Bank	70.0	37.5	27.0	5.5	19.0	18.0	15/3	0.0	1.0	8.0	0.0	1.0	8.0	0.0	0.0	3.0
Fidelity Investments	65.0	45.0	15.0	5.0	32.0	29.0	27/2	3.0	0.0	2.0	2.0	0.0	0.0	0.0	0.0	1.0
Fiduciary Trust	50.0	37.5	10.0	2.5	27.5	27.5	27.5/0	0.0	0.0	15.0	0.0	0.0	10.0	5.0	0.0	7.5
Fifth Third Bank	59.0	39.0	16.0	4.0	22.0	21.0	17/4	1.0	0.0	16.0	4.0	4.0	8.0	0.0	0.0	3.0
Glenmede	48.0	32.0	13.0	3.0	28.0	28.0	24/4	0.0	0.0	21.0	2.0	2.0	7.0	10.0	0.0	3.0
Goldman Sachs	38.0	23.3	11.8	3.0	34.1	32.1	26.35/5.75	0.0	2.0	27.9	6.0	0.0	7.0	14.0	0.9	0.0
HSBC Private Bank	43.0	21.0	18.0	4.0	29.0	27.0**	25/2	0.0	2.0	25.0	3.0	2.0	14.0	5.0	0.0	3.0
Janney Montgomery	60.0	41.0	16.0	3.0	32.0	27.0	22/5	3.0	2.0	3.0	2.0	1.0	0.0	0.0	0.0	5.0
JPMorgan	41.0	26.0	15.0	0.0	23.0	23.0	15/8	0.0	0.0	28.0	3.0	0.0	20.0	5.0	0.0	8.0
Key Private Bank	64.0	45.0	16.0	3.0	36.0	31.0	31/0	2.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LPL Financial	43.0	27.0	7.0	9.0	27.0	23.0	20/3	0.0	4.0	27.0	5.0	0.0	12.0	0.0	10.0	3.0
Merrill Lynch Wealth Mgmt	44.1	19.6	19.5	5.0	24.4	24.4	22/2.4	0.0	0.0	30.5	3.5	3.0	15.0	9.0	0.0	1.0

Morgan Stanley/Smith Barney	**50.0**	20.0	22.0	8.0	**26.0**	24.0	19/5**	2.0	0.0	**20.0**	0.0	3.0	9.0	0.0	8.0	**4.0**
Neuberger Berman	**46.0**	34.0	9.0	3.0	**35.0**	30.0	30/0	3.0	2.0	**16.0**	3.0	2.0	6.0	5.0	0.0	**3.0**
Northern Trust	**35.0**	23.0	10.0	2.0	**44.0**	44.0	28/16	0.0	0.0	**21.0**	3.0	3.0	6.0	6.0	3.0	**0.0**
Raymond James	**67.0**	49.0	14.0	4.0	**31.0**	27.0	23/4	4.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	**2.0**
RBC Wealth Mgmt	**55.0**	30.0	21.0	4.0	**37.0**	26.0	22/4	7.0	4.0	**0.0**	0.0	0.0	0.0	0.0	0.0	**8.0**
Robert W. Baird	**54.0**	38.0	14.0	2.0	**38.0**	38.0	36/2	0.0	0.0	**4.0**	2.0	2.0	0.0	0.0	0.0	**4.0**
SCS	**40.0**	22.0	16.0	2.0	**20.0**	20.0	19/1	0.0	0.0	**39.0**	3.0	0.0	20.0	12.0	4.0	**1.0**
Silvercrest	**52.0**	41.0	6.0	5.0	**18.0**	18.0	14/4	0.0	0.0	**25.0**	0.0	0.0	25.0	0.0	0.0	**5.0**
SunTrust PWM	**48.0**	32.5	12.5	3.0	**41.0**	41.0	37.5/3.5	0.0	0.0	**8.0**	0.0	0.0	4.0	0.0	4.0	**3.0**
UBS	**37.0**	20.5	10.5	6.0	**44.0**	40.0	36.5/3.5	1.0	3.0	**19.0**	0.0	4.0	10.0	5.0	0.0	**0.0**
U.S. Bank Wealth Mgmt	**44.0**	31.0	10.0	3.0	**25.0**	25.0	22/3	0.0	0.0	**27.0**	5.0	2.0	14.0	6.0	0.0	**4.0**
U.S. Trust	**55.0**	36.0	14.0	5.0	**22.0**	21.0	19/2	1.0	0.0	**22.0**	5.0	1.0	9.0	7.0	0.0	**2.0**
Wells Fargo	**54.0**	37.0	11.0	6.0	**17.0**	13.0	10./3	0.0	4.0	**25.5**	8.0	2.0	11.5	4.0	0.0	**3.5**
William Blair	**58.0**	25.0	25.0	8.0	**22.0**	18.0	14/4	4.0	0.0	**18.0**	8.0	0.0	5.0	0.0	5.0	**2.0**
Wilmington Trust	**49.8**	30.1	17.7	2.0	**25.3**	25.3	21.3/4	0.0	0.0	**17.8**	2.0	0.8	15.0	0.0	0.0	**7.1**
AVERAGE	**50.7**	31.5	14.9	4.4	**28.7**	26.6	22.6/4.0	1.3	0.8	**17.6**	2.6	1.0	9.0	3.8	1.4	**3.0**

Asset allocations are models; all firms customize portfolios to suit clients' specific needs. Numbers may not add up to 100% due to rounding. *Includes real estate, commodities, and private equity. **Includes any international high-yield.

SOURCE: Barron's Penta by Karen Hube, 3/26/16

So what is an advisor to do? What's the most effective asset allocation model?

Turns out, that's actually the wrong question.

The correct starting question is, "Do asset allocation differences even matter?"

Cambria teased out all the data from the table and normalized the hedge fund exposure to examine three allocations.

Highest Stock Allocation	**Average**	**Lowest Stock Allocation**
Deutsche Bank **70%**	**51%**	Northern Trust **35%**

Below is the equity curve for each. Unless you have hawk-like vision, you'll likely have a hard time distinguishing between the curves, and this is for the most different. The other 40+ firms live somewhere in the middle!!

Here are the returns for each allocation over the entire 1973-2015 period.

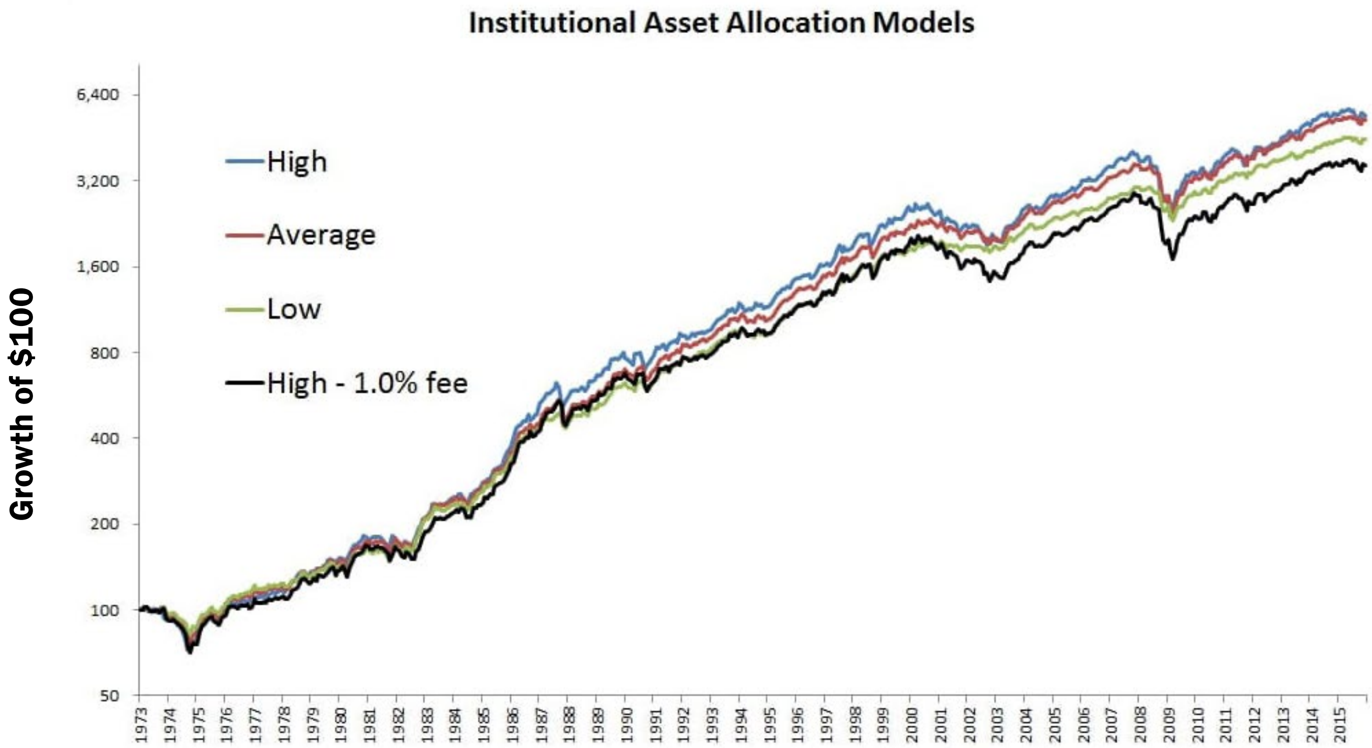
Most Aggressive	**Average**	**Least Aggressive**
Deutsche Bank **9.72%**	**9.60%**	Northern Trust **9.19%**

There you have it – the difference between the most and least aggressive portfolios is a whopping 0.53% a year. Now, how much do you think all of these institutions charge for their services? How many millions and billions in consulting fees are wasted fretting over asset allocation models?

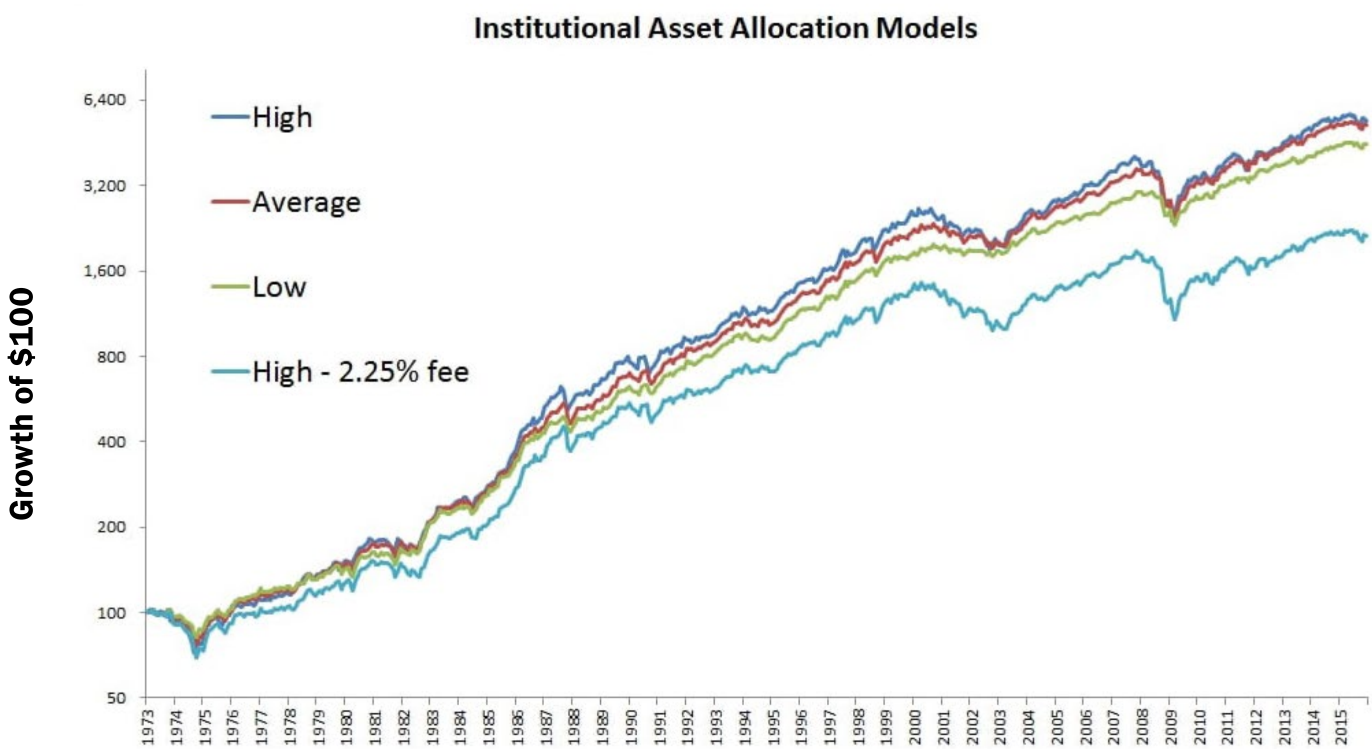
Let's try one more experiment…

Overlay a simple 1% management fee on the most aggressive portfolio and look again at the returns. Simply by paying this mild fee (that is lower than the average mutual fund, by the way) you have turned the highest returning allocation into the lowest returning allocation – rendering the entire asset allocation decision totally irrelevant.

And if you allocate to the average money manager with an average fee (1%) that invests in the average mutual fund (1.25%), well, you know the conclusion.



So all those questions that stress you out…



- "Is it a good time for gold?"
- "What about the next Fed move – should I lighten my equity positions beforehand?"
- "Is the UK going to leave the EU, and what should that mean for my allocation to foreign investments?"

Let them go.

If you're a professional money manager, go spend your time on value added activities like estate planning, insurance, tax harvesting, prospecting, general time with your clients or family, or even golf.

If you're a retail investor, go do anything that makes you happy.