

# Why is Dynamic Asset Allocation A Superior Strategy?

This approach allows for adjustments in asset exposure based on evolving market conditions and economic landscapes

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**T**he ability to adjust to evolving market conditions and take advantage of emerging opportunities is pivotal for enhancing long-term investment performance. Hence, mutual fund investors should acknowledge the advantages of dynamic asset allocation strategies over their static counterparts.

While it is true that a one-size-fits-all approach to asset allocation is unattainable, given the volatile nature of asset class and their intricate interactions, investors are inclined towards securing the most resilient safeguard for their investment objectives. In this context, the dynamic asset allocation strategy stands out as a versatile and dependable solution for all seasons.

## Skill vs. Straight Path

In the realm of financial management, asset allocation can be likened to a high-speed journey on an open road. Imagine a sleek, powerful car racing down a winding highway, its engine roaring with unbridled energy. Here, dynamic asset allocation is akin to a skilled driver behind the wheel, ready to face any challenge that the road presents.

Like our speeding car, it adapts to the changing terrain, making turns, briefly halting to refuel or assess the situation, and then accelerating with renewed vigour. It's a strategy that is responsive to market fluctuations, economic shifts, and the likes, ensuring that the journey remains anything but monotonous.

In stark contrast, a static asset allocation strategy is akin to the same car moving along an unending straight path. It maintains a constant speed and direction, never deviating from its initial course.

Although this approach may seem stable and predictable, it lacks the agility to respond to the financial world's unexpected twists and turns. Much like the car's inability to navigate the dynamic landscape of the winding road, a static asset allocation strategy can leave investors vulnerable to unforeseen asset class turbulence. It remains fixed in its choices, regardless of market fluctuations or the evolving needs of the investor.

Just as our high-speed car journey illustrates, dynamic asset allocation brings a sense of adaptability and responsiveness to the world of financial management. It ensures that your financial journey is not confined to a rigid, unyielding path but is, instead, characterised by the ability to seize opportunities, weather challenges, and adjust course as needed. In this way, dynamic asset allocation is like a skilled driver, deftly manoeuvring through the ever-changing landscape of

financial markets, making the journey more secure and satisfying.

## Unravelling Dynamic Asset Allocation

For many investors, achieving financial goals such as retirement planning or saving for children's education requires a carefully designed mutual fund portfolio. One strategy that has gained traction among investment professionals is dynamic asset allocation. This approach allows for adjustments in asset exposure based on evolving market conditions and economic landscapes. Such adaptability can potentially harness market opportunities and offer a cushion during downturns.

Over the years, there have been several significant events that had far-reaching effects on assets in the near to medium term. Developments such as financial scandals, crises such as the Dot

Com bubble and subprime crisis, terrorist attacks, natural disasters, commodity crashes, currency demonetization etc. are all events which took a toll on multiple asset classes. While each of these were challenging times, they were also opportunities if harnessed well.

Dynamic asset allocation fundamentally rests on active management. Advisors employing this strategy make calculated decisions on transitioning between asset classes, aiming for enhanced returns. By doing so, they can tactically reduce exposure to assets that are overvalued or underperforming. Such agility can be beneficial, especially during volatile or bearish market phases.

Contrastingly, static asset allocation methods, though seemingly straightforward,

adhere to predetermined asset class allocations. For instance, a perpetual 60:40 equity-debt split was established at the inception of financial planning. While this might appear simpler and less demanding, the limitation emerges when these allocations remain constant, irrespective of unfavourable market conditions.

For those who lean towards a proactive investment style, appreciate active management, and aim to capitalize on short-term market shifts, advisors using dynamic asset allocation could be the right fit.

In conclusion, dynamic strategies culminate in a more balanced and diversified portfolio. So, if this aligns with your financial goals and risk tolerance, consider opting for a dynamically managed asset allocation strategy to meet your medium to long-term goals.

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