

Tactical Asset Allocation

*Featuring Sage Advisory Services
Exchange Traded Fund Models*

TACTICAL VS STRATEGIC ASSET ALLOCATION

Tactical asset allocation seeks to add value either in the form of higher return, lower risk or some combination thereof, by making asset allocation shifts. Strategic asset allocation, on the other hand, establishes a long-term asset allocation for an investor's specific situation and periodically rebalances the portfolio to maintain the long-term original allocation.

Compared to strategic asset allocation, tactical asset allocation is a more dynamic, forward looking approach to portfolio management. From a portfolio theory perspective, it may make sense to adjust the asset allocation based upon expected changes in the capital markets rather than simply mechanically rebalancing your portfolio.

Given market volatility and economic uncertainty in recent years, these important distinctions between strategic asset allocation and tactical asset allocation mean that many investors are interested in using tactical asset allocation strategies to support their strategic asset allocation goals.

For example, a strategic asset allocation of 60% equities/ 40% fixed income may be the best policy mix. However, in a tactical move, the ratio of equities to fixed income position may be reallocated to 70% equities/30% fixed income based on the chosen tactical methodology.

HOW TACTICAL ASSET ALLOCATION WORKS

Broadly speaking, tactical asset allocation strategies can be classified as qualitative or quantitative. The goal is to identify and take advantage of perceived

mispricings across asset classes. To accomplish this, each strategy uses a variety of measures — including technical indicators, fundamental indicators and quantitative measures — to evaluate current market conditions and forecast potential future opportunities and risks.

WHY USE ETFs TO PRACTICE TACTICAL ASSET ALLOCATION?

ETFs provide two critical advantages. First, they eliminate “style drift” problems that can affect open end mutual funds and professional money managers. Second, ETFs eliminate the security selection risk through exposure to the entire universe of securities within the asset class or sector.

ETFs are also relatively cost efficient. Not only are their internal costs often as low or lower than open end index funds, but they also reduce other management costs, including due diligence, fund monitoring and security research. Other ETF benefits include real time execution, trades that don't move the market and a tax base established separately for each investor.

INTRODUCING SAGE ADVISORY SERVICES

Founded in 1996, Sage Advisory Services is a 100% employee-owned, Securities and Exchange Commission registered investment advisory firm. Sage specializes in offering investment management services focused on the global fixed income and equity markets. Sage's equity and fixed income approaches begin with a top-down assessment of the current macro environment to establish an outlook for the capital markets over the next several quarters. This assessment uses forward-looking proprietary



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Tactical Asset Allocation, continued

models/indicators. The models/indicators are time-tested, repeatable, and add discipline to their investment approach.

Sage model portfolios represent a disciplined tactical investment strategy that adjusts the asset allocation as a result of the manager's forward view of the changing relative risks and returns in the capital markets. The portfolios are globally diversified using exchange traded funds (ETFs) to capture its tactical allocation decisions.

FIVE MODEL PORTFOLIOS

Sage Advisory provides five all ETF portfolios designed around specific risk and return guidelines.

Sage Profile 1: This model portfolio is for investors who:

- Are primarily concerned with preservation of capital.
- Are willing and able to accept lower long term expected returns in exchange for smaller and less frequent losses in the portfolio.
- Have a short investment time horizon.

Sage Profile 2: This model portfolio is for investors who:

- Seek a combination of conservative expected returns and current income.
- Are willing and able to tolerate moderate levels of short term losses.
- Have a medium investment time horizon.

Sage Profile 3: This model portfolio is for investors who:

- Seek a combination of moderate expected returns and current income.
- Are willing and able to tolerate moderate levels of short term losses.
- Have a medium investment time horizon.

Sage Profile 4: This model portfolio is for investors who:

- Seek to maximize long term expected returns and do not depend on this portfolio to fulfill short term cash requirements.
- Are willing and able to tolerate short term losses.
- Have a medium to long investment time horizon.

Sage Profile 5: This model portfolio is for investors who:

- Seek to maximize long term expected returns and do not depend on this portfolio to fulfill short term cash requirements.
- Are willing and able to accept and tolerate large and frequent losses in portfolio value in exchange for a higher return.
- Have a long investment time horizon.

WHICH TACTICAL ASSET ALLOCATION MODEL IS RIGHT FOR YOU?

Depending on your goals, time horizon and how you feel about risk, one of the five Sage Advisory Services models may be appropriate for you. For help choosing the right one call your RBC Wealth Management® Financial Advisor today.

Historical fund performance does not guarantee the same results in the future. Principal value, share prices and investment returns fluctuate with market conditions. Your investment may be worth more or less than your original cost when you redeem your shares.

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