

# Press Release



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## **Failure to Adjust Asset Allocation in Changing Markets Can Lead to Disappointing Investment Returns, According to Mellon Capital**

### ***Researchers at BNY Mellon Boutique Advise Dynamic Portfolio Management***

SAN FRANCISCO, October 19, 2010 – Investors who fail to adjust their asset allocations to changing market conditions are likely to achieve disappointing returns, according to a recent report by Mellon Capital Management Corporation, part of BNY Mellon Asset Management.

“We believe the inability of a static asset allocation mix to accept new information was the main culprit behind the unrealized return expectations for many institutional investors,” said Jonathan Xiong, director, global asset allocation, for Mellon Capital. “Investment managers need to dynamically change their asset allocations within a portfolio to reflect the most recent changes in expectations.”

Most public, corporate and endowment portfolios over the last decade have adhered to a static asset allocation, with the only changes in asset class exposures driven by market movement, according to the paper.

“A fallacy of the static allocation approach is that it assumes return expectations will not change, regardless of capital market or macro economic conditions,” said Xiong. “Credit spreads and equity risk premiums can be volatile, and our studies indicate that changes in these factors have affected returns. Our research concludes that a five percent change in expected equity returns has the potential to shift the optimal asset allocation by more than 80 percent.”

Among the reasons cited by the report for failing to adapt to new information are the sheer size of institutional portfolios, internal resource constraints, and the board approval process. However, the report also notes that many investors have allocated capital to tactical asset allocation strategies that, combined with their policies and target asset allocations, can closely mirror a dynamic asset allocation process.

#### **Notes to Editors:**

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