Allocationmetrics Limited

CURRENT FRAMEWORK **REALITY**

Multi-asset portfolios are like a bowl of nuts

Having just finished a robust discussion at the PIMCO office in **Sydney, Australia** with the local investment community, on our new book Multi-Asset Investing: A Practitioner's Framework, we were waiting at the airport lounge with a drink and some nuts. I couldn't help drawing an analogy with the words of Forrest Gump, that "Multi-asset is like a bowl of nuts".

We create traditional portfolio structures with the naïve belief that equities and bonds are two separate asset classes (the left bowl). Whereas in reality it is a much more mixed structure (the right bowl). We don't find newer ways to segment our nut universe of securities, in asset classes or geographies; we don't find different ways to analyze risk in securities, like credit risk in equities; we still believe that alternatives is an asset class to be allocated to; we still believe the country where the security is listed, is where it's risk is…….. and so much more. Of course in multi-asset investing, these issues become exceedingly important.

But to be able to create a more robust structure for investing in a multi-asset class world, we have to get rid of some of the most basic axioms we have been taught: the concept of CAPM, the concept of alpha and beta, the global market portfolio and the market cap weighted benchmark.

As Arthur C. Clarke once said:

"I don't pretend we have all the answers, but the questions are certainly worth thinking about."