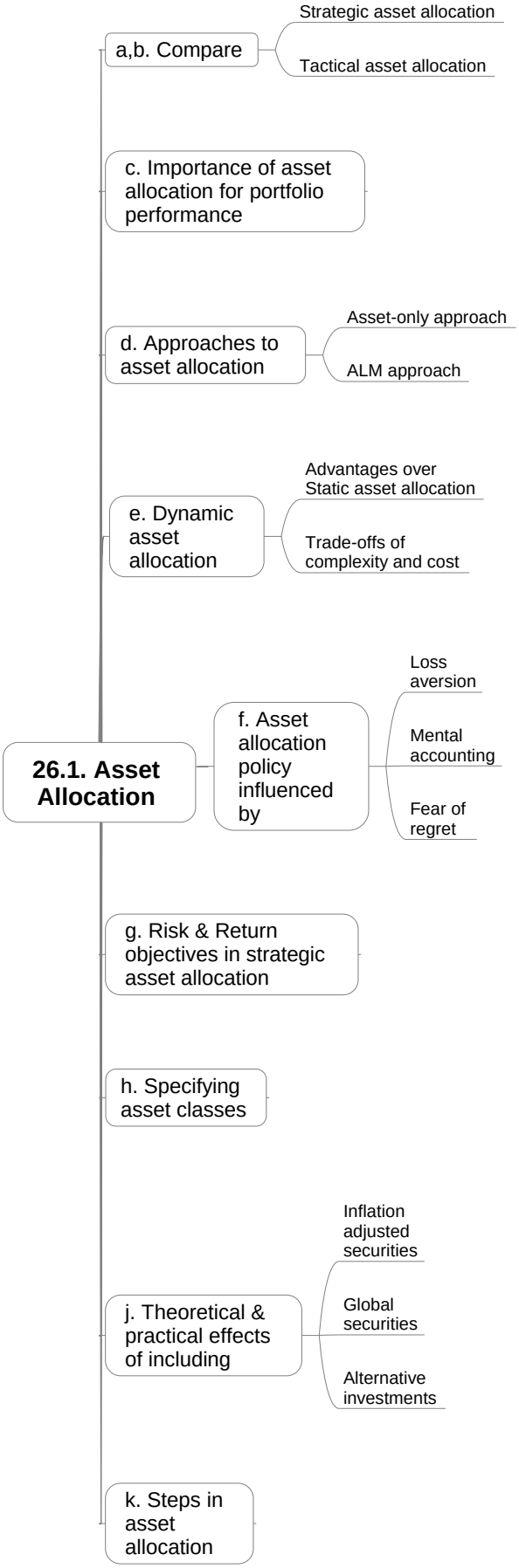
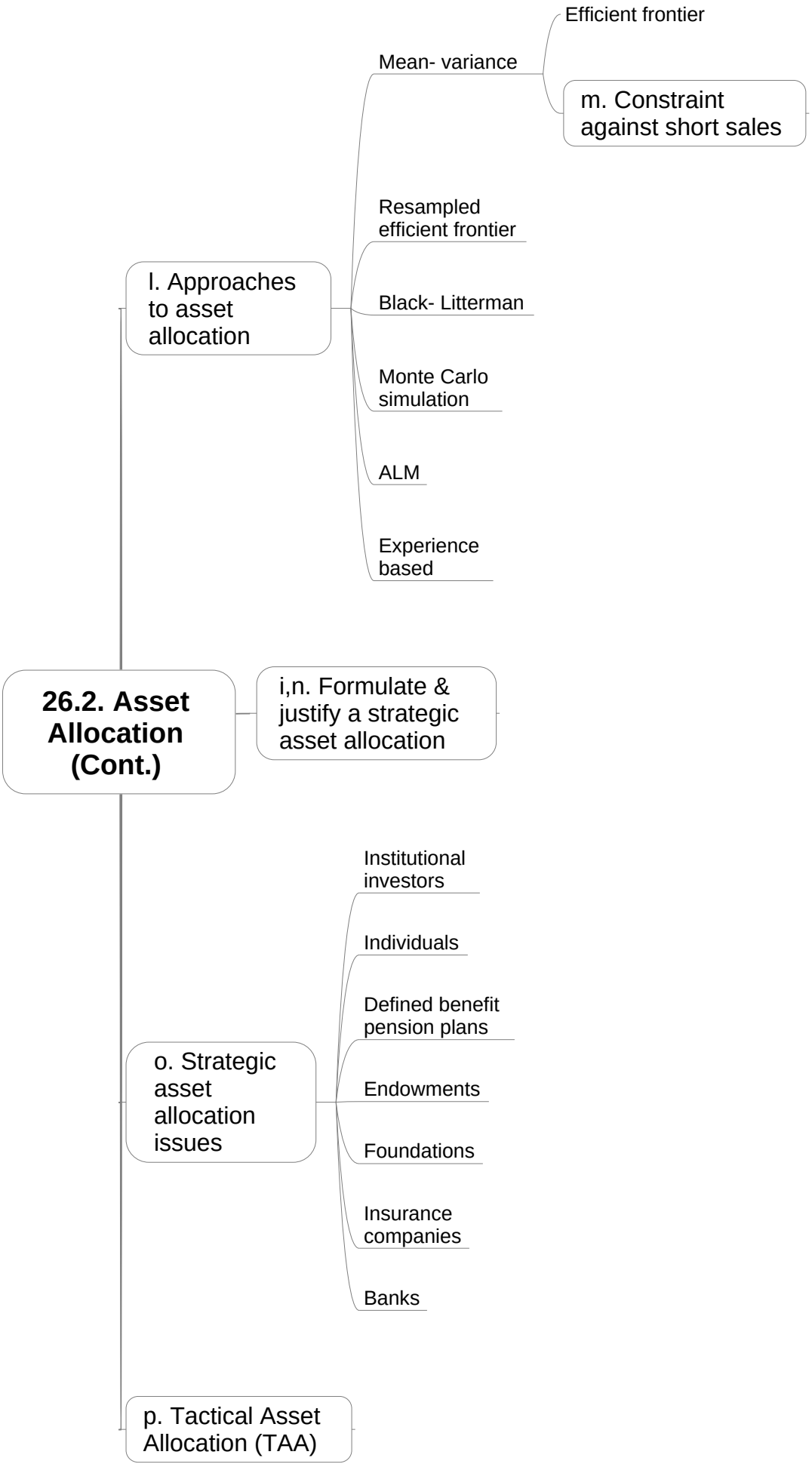
CFA LEVEL 3

STUDY SESSION 8

ASSET ALLOCATION


26.1. Asset Allocation
a,b. Compare
Strategic asset allocation
Tactical asset allocation
c. Importance of asset allocation for portfolio performance
d. Approaches to asset allocation
Asset-only approach
ALM approach
e. Dynamic asset allocation
Advantages over Static asset allocation
Trade-offs of complexity and cost
f. Asset allocation policy influenced by
Loss aversion
Mental accounting
Fear of regret
g. Risk & Return objectives in strategic asset allocation
h. Specifying asset classes
j. Theoretical & practical effects of including
Inflation adjusted securities
Global securities
Alternative investments
k. Steps in asset allocation


26.2. Asset Allocation (Cont.)
l. Approaches to asset allocation
Mean- variance
Efficient frontier
m. Constraint against short sales
Resampled efficient frontier
Black- Litterman
Monte Carlo simulation
ALM
Experience based
i,n. Formulate & justify a strategic asset allocation
o. Strategic asset allocation issues
Institutional investors
Individuals
Defined benefit pension plans
Endowments
Foundations
Insurance companies
Banks
p. Tactical Asset Allocation (TAA)

27. The Case For International Diversification

- a. International diversification
  - Global portfolio risk and return
  - International equity market correlations
  - International bond market correlations
- d. International efficient frontier
- e. Benefits of adding bonds
- b. Currency return
- c. Currency risk
- f. Currency risk and volatility
- g. International diversification should not work
- h. Barriers to international investing
  - Transactions costs
  - Regulations
  - Taxes
  - Currency risk
  - Political risk
  - Market efficiency
  - Lack of familiarity
- i. Global vs International investing
- j. Emerging markets
  - Investability
  - Segmentation & Integration of emerging markets