

Faber, Meb – Global Asset Allocation

The Idea Farm, 2015, [Finance] Grade ★★ ★

Meb Faber has written a short and accessible study over some of the more prevailing strategic asset allocation (SAA) strategies used by institutional investors. SAA is the method for setting long-term target allocations for various assets that is included in an investment portfolio. Mr. Faber is a co-founder and CIO of Cambria Investment Management and a prolific blog writer and book author. The main conclusion of the book that the author wants to drive through is that different asset allocation strategies give similar returns and what will make real life results differ is the level of fees deducted from the returns.

Global Asset Allocation covers 3 sections over a total of 130 pages. The first is looking back on the international history of core asset classes such as equities, bonds, bills and cash during the last 100 years or so. The conclusion is that they all contain risk and react differently at special points in time. Hence, diversification is the way to go. Then follows the second section that presents a number of asset allocation strategies. A total of 13 SAA strategies are covered either in the body text or in the appendixes and these include risk parity portfolios as populated by Bridgewater, the endowment type of portfolio made famous by Yale's David Swensen and Marc Faber's portfolio with a focus on real assets. The 60/40-portfolio is as usual used as the reference portfolio. Each chapter begins with a short text introduction covering the basics and background of the strategy, a table over the used asset allocation, graphs over back-tested returns going back to the early 1970s and tables providing the portfolio's return, volatility, Sharpe-ratio and max drawdown.

Finally there are a number of chapters that compare the many SAA strategies, discuss the implementation of them, draw conclusions and try to answer frequent questions. The bottom line is that the returns of the strategies are relatively similar so it's more important to pick one, rebalance and keep to it than to try to optimize the choice. With relatively minor differences between

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strategies, the fees it costs to implement then become the deciding variable when it comes to determining which one will bring the most wealth over time.

Faber focuses on three main asset classes: stocks, bonds and real assets such as commodities including gold, TIPS and real estate. He leaves out hedge funds, presumably as they are strategies rather than asset classes, and also private equity which is an illiquid form of stocks. All SAA strategies receive their allocation over those three categories. The problem is that the endowment portfolio's defining focus is private equity and to some extent hedge funds. Further, what stands out with Rob Arnott's SAA strategy is the dynamic value bias within equities and the leverage used by Bridgewater is an integral part of their strategy and these features are also weeded out. The motive is obviously to be able to compare apples to apples. However, it's a bit odd to remove much of what separates SAA strategies from each other and then draw the conclusion that they all give pretty much the same returns since they have similar exposures.

With the many tables and graphs the text isn't especially taxing but the reader probably should have some advance knowledge of portfolio management. With limited amount of effort the reader gets a good overview of almost all strategic asset allocation strategies in use. It's perhaps more of a survey than a book. If the author had taken the time to deepen the discussion on each strategy it would have increased the value of Global Asset Allocation. To make up for the limited discussion Faber includes a number of useful Internet links. If I correctly read between the lines, it seems that the author due to the limited expected future returns of equities and bonds today favors strategies that own more of real assets. Apart from the fact that these assets are all the rage today, it is sometimes hard to be certain that these assets aren't equally expensive.

In all, a user-friendly, handy but thin overview.