Dynamic Allocation or Diversification: A Regime-Based Approach to Multiple Assets

This article investigates whether regime-based asset allocation can effectively respond to changes in financial regimes at the portfolio level in an effort to provide better long-term results when compared to a static 60/40 benchmark. The potential benefit from taking large positions in a few assets at a time comes at the cost of reduced diversification. The authors analyze this trade-off in a multi-asset universe with great potential for static diversification. The regime-based approach is centered around a regime-switching model with time-varying parameters that can match financial markets’ behavior and a new, more intuitive way of inferring the hidden market regimes. The empirical results show that regime-based asset allocation is profitable, even when compared to a diversified benchmark portfolio. The results are robust because they are based on available market data with no assumptions about forecasting skills.

General information
State: Published
Organisations: Department of Applied Mathematics and Computer Science, Dynamical Systems, Sampension, Lund University
Contributors: Nystrup, P., Hansen, B. W., Larsen, H. O., Madsen, H., Lindström, E.
Number of pages: 12
Pages: 62-73
Publication date: 2018
Peer-reviewed: Yes

Publication information
Journal: The Journal of Portfolio Management
Volume: 44
Issue number: 2
ISSN (Print): 0095-4918
Ratings:
BFI (2019): BFI-level 2
Web of Science (2019): Indexed yes
BFI (2018): BFI-level 2
Web of Science (2018): Indexed yes
BFI (2017): BFI-level 2
Scopus rating (2017): CiteScore 0.73 SJR 0.486 SNIP 1.085
Web of Science (2017): Impact factor 0.812
Web of Science (2017): Indexed yes
BFI (2016): BFI-level 2
Scopus rating (2016): CiteScore 0.54 SJR 1.078 SNIP 0.849
Web of Science (2016): Impact factor 0.41
BFI (2015): BFI-level 2
Scopus rating (2015): CiteScore 0.6 SJR 0.899 SNIP 1.006
Web of Science (2015): Impact factor 0.558
Web of Science (2015): Indexed yes
BFI (2014): BFI-level 2
Scopus rating (2014): CiteScore 0.6 SJR 1.425 SNIP 0.999
Web of Science (2014): Impact factor 0.449
BFI (2013): BFI-level 1
Scopus rating (2013): CiteScore 0.57 SJR 0.792 SNIP 0.916
Web of Science (2013): Impact factor 0.439
BFI (2012): BFI-level 1
Scopus rating (2012): CiteScore 0.65 SJR 0.846 SNIP 0.921
Web of Science (2012): Impact factor 0.525
BFI (2011): BFI-level 1
Scopus rating (2011): CiteScore 0.51 SJR 0.626 SNIP 0.614
Web of Science (2011): Impact factor 0.431
BFI (2010): BFI-level 1
Scopus rating (2010): SJR 0.738 SNIP 0.837
Web of Science (2010): Impact factor 0.416