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Asset Allocation Contest

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The 2017 Asset Allocation Contest sponsored by the SOA Investment Section is underway! The contest period will run April 1 through Sept. 30. The Investment Section simplified some rules this year to increase participation and reduce unnecessary complexity. We preserved rules intended to promote thoughtful portfolios. For example, this year we required that at least four asset classes be chosen, and that each maintained an allocation of at least 10 percent. This standard reduces some of the tendency to win the contest by randomly “throwing darts” while still preserving the ability to make large-scale bets in certain asset classes.

The contest is broken up into three subcategories, testing the skill (or luck) of section members’ portfolio design capabilities. Each is intended to mimic a real-world activity that could be seen in practice:

- **Maximize risk-adjusted alpha.** In this contest, the actual portfolio return matters much less than the return relative to volatility. A relatively low-returning portfolio could fare well and well-diversified portfolios have tended to do best in early results.
- **Maximize Accumulation.** For this contest, the only result that matters is the ending asset value. In the 2017 contest, over one-third of contest participants decided to allocate

at least 50 percent of their portfolio to a single asset class. Others chose to distribute over 50 percent of their assets to similar asset classes (e.g., non-U.S. equities or real assets). I expect the leaderboard to be quite fluid as various asset classes surge, benefitting certain concentrated portfolios.

- **Drawdown Risk.** This contest is similar to the accumulation contest. However, the contest design can punish volatile portfolios by withdrawing \$800 every trading day. Either the last portfolio “standing” or the portfolio with the highest value on Sept. 30 will be the winner. Not surprisingly, participant portfolios tended to be more diversified than in the accumulation contest, though not as diversified as the risk-adjusted alpha contest. This contest will become much more interesting in August and September as the daily draw-down accounts for a more substantial portion of the overall portfolio.

The contest has been set up for Investment Section members as a fun way to apply skills learned on the job to a competition among peers using real-world data. Those section members that signed up for the contest this year will continue to receive regular updates and some market commentary. For those who did not sign up this year, we look forward to you participating next year!

For official contest rules see <http://www.soa.org/sections/investment/investment-allocation-contest/> ■

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