Asset Allocation

Estimating Long Term Expected Returns

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Three anchors — historical performance, theoretical foundations and current valuations — provide a useful and complementary framework to estimate long-term expected returns. Depending on investors' time horizons, specific anchors should be given more or less weight.

Diversification remains underutilized in most institutional portfolios. It may improve risk-adjusted returns, active returns and total returns more reliably than concentrated positions can. We review three ways diversification may systematically improve long-term returns.

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