



Portfolio Risk And Performance

Taking Control of Your Risk Allocation

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By targeting diversification and consistent total portfolio risk at each point in time, investors who choose risk parity are able to more fully realize the potential benefits of that risk-balanced investment strategy. The authors add that investors who also apply sensibly proportioned and diversified tactical tilts to risk parity may generate additional uncorrelated returns with little loss of diversification.

Some of these active views may also provide modest risk management benefits, but they caution that no one should be under the illusion that tactical tilts are a suitable replacement for disciplined risk management.

Starting with a more diversified allocation, maintaining that diversification by managing risk through time, and then adding value through active management may help investors take the risks they want to take and avoid the ones they don't — and may get better risk-adjusted returns than a traditional portfolio, the authors conclude.

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