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Strategic vs. Tactical Investing

How do these investment approaches differ?

Ever heard the term "strategic investing"? How about "tactical investing"? At a glance, you might assume that both these phrases describe a similar investment approach.

While each approach involves the periodic adjustment of a portfolio and holding portfolio assets in varied investment classes, they differ in one key respect. Strategic investing is fundamentally passive; tactical investing is fundamentally active. An old saying expresses the opinion that strategic investing is about time in the market, while tactical investing is about timing the market. There is some truth to that.[1]

Keep in mind that asset allocation is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

Also, investing involves risk, and the return and principal value of investments will fluctuate as market conditions change. Investment opportunities should take into consideration your goals, time horizon, and risk tolerance. When sold, investments may be worth more or less than their original cost. Past performance does not guarantee future results.

Strategic investing focuses on an investor's long-range goals. This philosophy is sometimes characterized as "set it and forget it," but that is inaccurate. The idea is to maintain the way the invested assets are held over time, so that through the years, they are assigned to investment classes in approximately the percentages established when the portfolio is created.[1]

Picture a hypothetical investor. Assume that she starts investing and saving for retirement, with 60% of her invested assets held in equities and 40% in fixed-income vehicles. Now, assume that soon after she starts investing, a long bull market begins, and the value of the equity investments within her portfolio increases. Years pass, and she checks up on the portfolio, only to learn that much more than 60% of the value of her portfolio is now held in equities.

As she is investing strategically, this is undesirable. Rebalancing is in order. By the tenets of strategic investing, the assets in the portfolio need to be shifted, in order to be held in that 60/40 mix again. If the assets are not rebalanced, her portfolio could expose her to more risk than she wants – and the older she gets, the less risk she may want to assume.[1]

Keep in mind that this article is for informational purposes only. It's not a replacement for real-life advice, so make sure to work with a professional who can review any tax implications from portfolio rebalancing.

Tactical investing responds to market conditions. It looks at the present and the near future. A tactical investor attempts to shift the composition of a portfolio to manage risk exposure or to take advantage of new opportunities. This requires something of an educated forecast – two forecasts, actually. The challenge is to appropriately decide when to adjust the portfolio in light of change and when to readjust it back to the target investment mix. This is, necessarily, a hands-on style of investing.[1]

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"It is characteristic of wisdom not to do desperate things."

- HENRY DAVID THOREAU

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(continued)

Is it better to buy and hold, or simply, to respond? This question has no easy answer, but it points out the divergence between strategic and tactical investing. A strategic investor may be inclined to "buy and hold" and ride out episodes of Wall Street turbulence. On the other hand, the tactical investor risks buying high and selling low.

Investors have long debated which strategy is better. One approach may be better suited than another at a particular point in time. And often, it's not an all-or-nothing proposition. Both approaches may play a role in your overall strategy.

Citations.
1. Investopedia.com, August 15, 2019

WE WILL BE CLOSING EARLY ON FRIDAY, SEPTEMBER 4TH AND CLOSED ON MONDAY, SEPTEMBER 7TH IN OBSERVANCE OF LABOR DAY.

SUMMER OFFICE HOURS:	7:30AM – 4:30PM	MONDAY – THURSDAY
MAY 1 – SEPTEMBER 4	7:30AM – 3:00PM	FRIDAY