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Chief Investment Officer

ACADEMY FINANCIAL, INC.
EVALUATE • ENVISION • EXECUTE

Rebalance and Reallocation

February 2021

"Listening to and understanding our client's financial goals allows us to provide the highest level of investment planning advice and service."

Fund Changes

Lord Abbett Floating Rate Fund – Sell
Black Rock Floating Rate Fund - Buy

Lord Abbett Floating Rate has been on our watch list for nearly a year based on risk adjusted performance. Just prior to the pandemic it moved from a strong top quartile fund to one that was average. Prior to the pandemic we reduced our position by half, which proved prudent as most of the higher risk fixed income underperformed. Lord Abbett continued to underperform relative to their peers, so while the recovery since March has been strong, we sought out other high quality funds without the downside risk. Black Rock Floating rate was selected for its consistent strong performance and reasonable assets-at-risk approach. As one of the largest investment institutions, they manage over $6 Trillion and have a strong track record in floating rate investments as well as overall fixed income. It is our second selection of a Black Rock fixed income fund as part of our allocation. We're confident that the risk/return balance will produce more consistent results. If floating rate investments show more compelling valuations, we will look to add to our current position.

Allocation Changes

Our main allocation changes are to reduce the position in emerging markets and increase the position in domestic large cap growth. This is a continued response to both the results and reaction of the Corona virus pandemic followed by the strong rebound in equity markets we saw in 2020 and continuing in 2021. Our holdings in domestic equity will rise slightly. This is a slight increase in risk largely driven by the Fed and market forces. With interest rates still at historical lows we see areas of higher growth and corresponding risk continuing to outperform. In terms of Price to Earnings, the prospects for future growth are much greater in U.S. large cap growth than in foreign markets where valuations are very compelling. There will be a time when markets shift to value, small cap, and international equity and we are positioned accordingly with a diversified portfolio.

Within fixed income we added to the intermediate space and reduced our holdings in short duration. This is an increase in duration risk as all signals point to a continued low interest rate environment. While the risk is real if rates were to increase suddenly, we continue to stay in the short to intermediate area of fixed income. Moving to slightly longer duration adds a slight increase in interest rate risk with corresponding higher yields.

We maintain our position in Real Estate, Alternative Hedges, and High Yield fixed income.

Worth mentioning is that the stock markets have had an incredible run since March continuing through our last rebalanced in July 2020. In many cases, portfolios may be overweight equity simply due to that run up. Should that be the case for your portfolio, you may see both sales in equity and purchases in fixed income which will keep you in line with your risk and return targets. Your Academy financial planner is always available to discuss how your investment portfolio is integrated to your financial plan. Thank you again for your continued trust, our approach is to help you reach your goals while managing risk according to your plan.