Summary
- We have a modest overweight to risk assets and are underweight bonds.
- Our overweight is diversified across equities, real assets, and corporate credit. In addition, we have purchased a small amount of equity put options to provide a degree of protection if we were to experience a sharp downward move in markets.
- Current positioning reflects our constructive view of market fundamentals—low levels of volatility, attractive corporate fundamentals, and low interest rates—but also takes account of possible fragility given policy uncertainties in Europe, the US, and China.
- In response to the recent run-up in equity markets, we have reduced our overweight since the last ADAPT meeting.

Overweight Risk Assets, Though More Diversified

As of March 31, 2012
Note: Figures may not sum due to rounding.
Source: AllianceBernstein
**Recommended Positioning**

The latest ADAPT meeting confirmed an earlier decision to remain “pro-risk” but to slightly trim our overweight; the recommended position for a 60% equity/40% bond Private Client investor is now 63% risk-asset exposure. We adjusted our position because last month’s continued strong run-up in developed equity markets, which was particularly pronounced in the US and Japan, took place without any material revisions in earnings expectations. The consequent multiple expansion means that valuations have become less compelling although they remain below average. Yet, other conditions remain favorable to an overweight: Current policies of many central banks are to maintain low interest rates and high liquidity, and company balance sheets are strong. The low-yield environment should provide stimulus to economic activity and translate into support to future earnings through revenue growth.

However, the recent focus on the Cypriot banking system—and the potential threat that Cyprus would exit the euro area—is a clear indication that the market remains vulnerable to disruption. Our approach to diversify the overweight across asset classes and to carry put protection helps mitigate these concerns.

The rationale for our portfolio construction is as follows:

- **Modest Overweight to Risk Assets:** In our assessment, risk conditions remain subdued. Indeed, the market demonstrated unusual complacency in the face of uncertainties around Cyprus, suggesting confidence in central-bank commitment to stability through policies of high liquidity and low yields. On the return side, valuations have become less compelling given rapid market appreciation and, as we trimmed our equity weight, we removed our emphasis on non-US stocks. We expect slow nominal growth in global GDP to give companies the chance to grow revenues and therefore earnings, given that we see little reason for margin degradation.

- **Equity Downside Protection:** The principal reason to purchase equity put options for a small portion of our stock exposure is to guard against adverse market movements associated with, say, the banking crisis in Cyprus or budget negotiations in the US. The cost of this insurance is also relatively inexpensive because, by historical standards, volatility is low. This low cost allows client portfolios to benefit from the downside protection but also to participate if the market rises significantly.

- **Real Assets and Credit:** We have taken further steps to diversify our exposures to manage risk by including real assets and credit in our construction. We have an allocation to a broad array of real assets including REITs, commodity futures, and commodity stocks. We have also swapped some equity exposure into both investment grade and high yield credit, which diversify the portfolio’s sources of risk while increasing its income stream.
Implications of Our Current Positioning
By reducing our overweight and maintaining the options position, the current position achieves a balance between participation in a good return environment and risk mitigation if returns were to be poor. As part of the investment process, the ADAPT team reviewed the impact of various scenarios on the portfolios. The scenarios were chosen to illustrate how rapid and extreme movements in broad markets or key economic variables might influence investment outcomes in both upside and downside cases. The findings were consistent with our expectations.

Conclusion
The ADAPT team has positioned client portfolios to participate in rising risk asset markets while remaining sensitive to the near-term risks. In an environment with stimulative rates and low volatility, we believe the return potential is sufficiently high to warrant a small overweight. To manage the near-term risks, however, the team has chosen to increase the number of asset classes to improve portfolio performance in a broader range of economic environments.

Disclosures
There is no guarantee that the goals of the Dynamic Asset Allocation (DAA) overlay service will be achieved. An account invested in DAA will cause the account’s overall exposure to equities, fixed income, real estate investment trusts (REITs), and other asset classes to vary significantly from the strategic long-term target allocations agreed upon for the account and may be different from information in this summary. Please read Bernstein’s Investment-Management Services and Policies manual and the Prospectus for the DAA overlay portfolios for additional information about DAA, including the principal risks of investing in the DAA overlay portfolios.

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