

# What Strategies Do You Use to Control Risk?

Let us know your thoughts at [magazine\\_editor@morningstar.com](mailto:magazine_editor@morningstar.com)

Asset allocation and diversification. **It may be old fashioned, but it works.**

Juli Erhart-Graves, CFP  
Worley Erhart-Graves Financial Advisors  
Indianapolis, IN

We discuss numerous risk strategies in our investment committee that are then embedded in our portfolios. **We diversify across asset styles and types.** More specifically, on the fixed-income side, we have a mix of foreign and domestic strategies, primarily short durations and of high quality. We also mix in emerging-markets bonds. On the equity side, we incorporate investments that are intended to provide absolute returns, long/short strategies, foreign currencies, gold, (sometimes other metals), real estate, and hedge-fund strategies. We also employ unconstrained equity strategies, which tend to add a non-correlation component to the mix. We view the portfolios daily and rebalance monthly.

Elyse D. Foster, CFP  
Harbor Financial Group  
Boulder, CO

Being from North Carolina, I think the best risk-mitigation strategy is **to keep our clients' money away from Butner, N.C., which is where Bernie Madoff spends his days in jail!**

On a serious note, we use long-dated Treasuries, managed futures, cash, alternatives, and sometimes inverse ETFs to manage risk.

Todd Misenheimer, CFP, CIMA, AIF  
Gordon Asset Management  
Durham, NC

*In the February/March issue, we printed Chris Weber's comments about active strategies. We got our signals crossed about the meanings of active strategies and active funds that put his comments out of context. To set the record straight, here are his correct comments:*

I am a firm believer in actively managed funds or funds of funds where the asset categories are clearly defined. I am not a fan of funds that have too much flexibility and of advisors who use their own active strategies. Funds that are style-specific have enough room in their space for sector rotation and asset selection, so I would rather managers not try to guess which sector will outperform the market. It is also hard to compare or benchmark performance of those funds over time. That said, I could see a running a portfolio sleeve with an exceptionally gifted manager. I use passively managed funds when tax efficiency is a concern or when there are a lack of choices on the active side.

Chris Weber, CFP  
Cetera Investment Services  
Northfield, MN

## Quick Poll (given Feb. 21, 439 responses)

**1 Are you increasing, decreasing, or leaving the same the amount of risk your clients are taking in their portfolios?**

Increasing	16.9%
Decreasing	29.9%
Leaving same	53.2%

**2 To adjust the amount of risk your clients take, do you use strategies other than diversification and altering their allocations to stocks and bonds?**

Yes	58.7%
No	41.3%

**3 Do you believe diversification is still an effective tool to reduce risk in a portfolio?**

Yes	93.6%
No	6.4%

**4 Which is a riskier investment right now, bonds or stocks?**

Bonds	62.4%
Stocks	37.6%

**5 Is the world becoming a riskier or safer place in which to invest?**

Much riskier	7.5%
Riskier	42.6%
Same	42.2%
Safer	7.5%
Much safer	0.2%