The Relative Importance of Asset Allocation and Security Selection: *Comment*

Mark Kritzman and Sébastien Page

The article by Kodjovi Assoé, Jean-François L'Her, and Jean-François Plante on the relative importance of asset allocation and security selection is an important contribution to this debate. Their refinement of our security selection methodology is a nice improvement that gives a fairer measure of the impact of security selection. Their conclusion that asset allocation and security selection produce equal dispersion, however, is contradicted by their own results.

When they control the experiment to include the same asset classes as we did, using their refinement for security selection, they show that security selection generates dispersion of 1.3% compared to 0.8% for asset allocation. When they shift to a broader set of asset classes, they show that asset allocation and security selection both produce dispersion of 0.8%. They obtain this result not because asset allocation and security selection generate the same degree of dispersion, given a broader set of asset classes, but because they limit security selection to only 40% of the portfolio while applying asset allocation to 100% of the portfolio. Moreover, they disallow security selection within asset classes that have particularly high specific components to their returns—commodities, private equity, and real estate.

We suspect that if the authors apply security selection to all the asset classes in their example, and not just stocks, they would reach a far different conclusion.

Mark Kritzman
is a managing partner at Windham Capital Management Boston in Cambridge, MA.
mkritzman@wcmbllc.com

Sébastien Page
is a senior associate at State Street Associates in Cambridge, MA.
spage@statestreet.com

REFERENCES

Assoé, Kodjovi, Jean-François L'Her, and Jean-François Plante. "The Relative Importance of Asset Allocation and Security Selection." *The Journal of Portfolio Management*, Fall 2006.

Kritzman, Mark, and Sebastién Page. "The Hierarchy of Investment Choice." *The Journal of Portfolio Management*, Summer 2003.