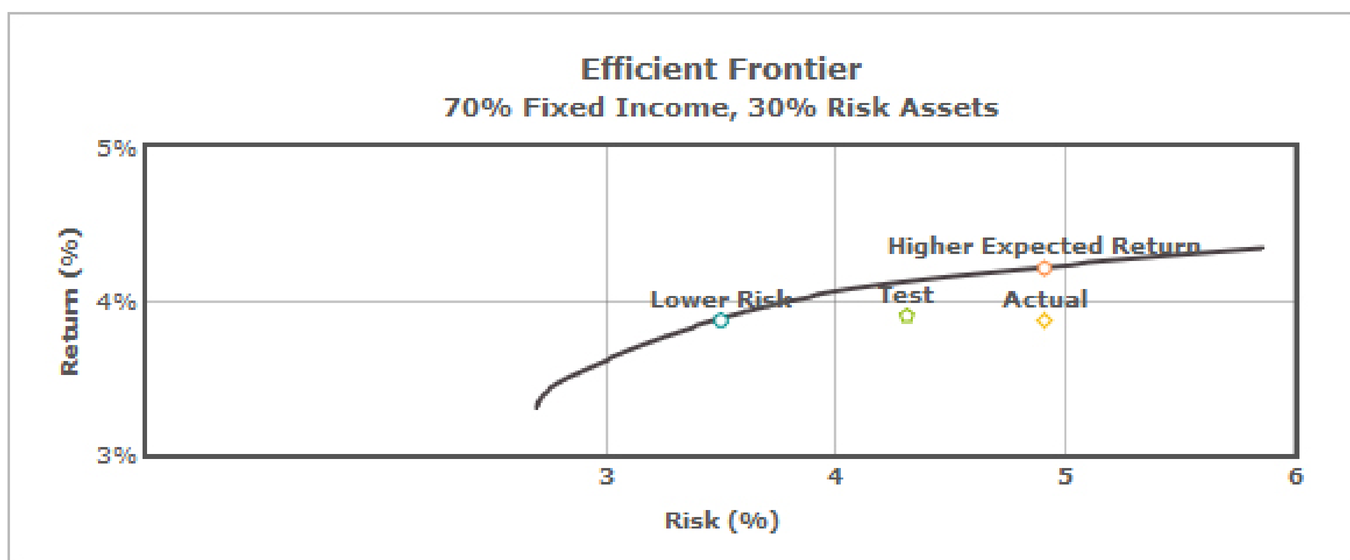
Efficient Frontier: Selecting the Optimal Asset Allocation

The efficient frontier is a method of strategic asset allocation analysis that displays optimal allocations for your company; identifying the best possible (expected) return for different portfolio constructions *(at your preferred fixed income-to-risk asset ratio)***.**

The efficient frontier helps insurers and risk pools identify if they may be able to achieve a higher expected return with the same amount of volatility found in their current portfolio. Similarly, companies can test to see if the portfolio could reduce volatility while maintaining its current expected return.

Overview: Efficient Frontier



Expected Portfolio Return (%):
Returns are typically based on historical and forecasted estimates over a 7 to 10-year time period *(and not a guarantee of future performance)*.

Expected Risk (%):
The volatility of your returns; the expected standard deviation of the portfolio *(or consistency of returns)*.

Actual (Current) Portfolio Allocation:
Portfolios under the efficient frontier curve may want to consider an alternate mix of asset types *(i.e. High-Yield Bonds, U.S. Large Cap, etc.)*, as the current allocation is not performing as expected *(given the preferred structure).*

Test Portfolio Allocation:
Sample portfolio constructions can be used to model and compare alternate asset allocation structures.

Higher Expected Return Allocation:
How high the portfolio's expected return could be, given the current level of volatility.

Lower Risk Allocation:
How low the portfolio's volatility could be, while still maintaining the current level of expected return.

Learn More About SAA Solutions' Asset Allocation & Efficient Frontier Tool >>

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