05.18.26 | INVESTMENT MANAGEMENT

How Are Tactically Managed Stock Strategies Different? (Video)

Kevin T. Grimes, CFA, CFP® - CEO

In this video, Grimes & Company CEO Kevin Grimes compares tactical equity investing strategies to traditional fully invested stock portfolios and balanced 60/40 portfolios during both bull and bear markets. Using historical market examples, he explains how tactical risk management strategies may help reduce portfolio drawdowns, lower volatility, and provide investors with greater peace of mind during difficult market environments.

This is part two of a two-part series on tactical investing and risk management. In Part 1, Kevin introduced the fundamentals of tactical equity investing and explained how systematic, rules-based strategies respond to changing market conditions. You can watch Part 2 below:

VIDEO TRANSCRIPTION:

Hello, I'm Kevin Grimes, CEO of Grimes & Company, and I'm back today to talk a little bit more about tactical risk management applied to the stock market. In the last video, we spoke about how tactical stock strategies work and gave some illustrations of what the ins and outs might have looked like for the S&P 500 during some memorable periods in the market.

In this video, we're going to take a look at comparing tactically managed stock strategies compared to fully invested stock strategies, as well as what a diversified portfolio might look like during some bull markets and bear markets. Remember, what I'm going to show you are just illustrations. They're not actual strategies.

So, to illustrate tactical investing, we need a simple benchmark to showcase the strategy. We're going to start with a diversified global stock index. And for this, we will rely on our neutral weight global allocation.

© 2026 Grimes & Company | One Technology Drive, Suite 100, Westborough, MA 01581

We will define global stocks as a mix of the following common indices: 50% exposure to the S&P 500, which is large US companies. 15% exposure to the Russell 2000 index, small US companies. A 20% exposure to the MSCI EFAE index, Europe, Australasia, and Far East, which represents developed foreign markets, and 15% of the index allocated to the MSCI Emerging Markets Index, which includes areas like China and Latin America and others.

So these very common indices blended together will represent global stocks, a global stock index, a very well-rounded stock portfolio.

Now we can create the global tactical index. We call it the global tactical 50 slash 200. This is a proxy for a tactical strategy. It is not an actual Grimes strategy, which is a far more nuanced thing.

The Global Tactical Index simply applies a simple risk management system that anyone could duplicate to the underlying components of what I described as the Global Stock Index.

So here's the system for this simple benchmark. The system is to sell or not include returns if price falls below both a 50-day moving average and a 200-day moving average of price. If the price is above either moving average, then the benchmark will own or include the returns of that component of the underlying benchmark. The effect is to create a conditional exposure to this global stock index based on simple moving averages available on any computer program.

So, let's look at statistics during bull and bear markets to further understand what to expect from different risk management strategies relative to a risky benchmark of global stocks.

We will compare three benchmarks. We'll start with global equities the S&P 500 large cap and the Russell's 2000 small cap in the developed foreign and emerging markets index blended together. We'll also look at that same global benchmark mixed with a 40% bond allocation to the Bloomberg aggregate bond index. So the traditional proverbial 60-40 portfolio.

And then we will look at it compared to the global equity allocation, again, as described, but applying the 200-day and 50-day moving average simple tactical benchmark system to it.

So, a couple quick definitions. Risk. Risk is measured a couple ways. One way to measure risk, and you'll see in the tables that follow, is the term standard deviation. Higher means more risky. High standard deviation is what makes investors feel sick to their stomachs during difficult markets. It's the ups and downs and ups and downs of an investment. Risk measures the extent of those ups and downs.

Drawdown is another form of risk. It is how much the portfolio actually lost. Risk management systems look to reduce drawdown and lower standard deviation while sacrificing as little return as possible. But the fact of the matter is that lowering risk lowers returns over time. It's a mathematical fact and there is no secret way around it in the long run.

Investors looking to manage risk and manage potential loss will necessarily sacrifice some performance in the long run. That said, as famed economist John Maynard Keynes said, in the long run, we're all dead.

Being forced to sell and distribute from an account in a down market is a portfolio killer. One advantage of tactical investing is that it provides liquidity by automatically raising cash levels during the most difficult times. This can allow for other parts of a portfolio to stay invested.

© 2026 Grimes & Company | One Technology Drive, Suite 100, Westborough, MA 01581

It is our experience that most logical investors are happy to concede some upside for peace of mind in increasing the odds of making a portfolio last through unknown future perils. So on to the tables.

You can see here, we're looking at a bear market. We're taking a look here at the global financial crisis period. So basically 2008 through mid-2009.

During that time global equity benchmark declined almost 40% with about a 47% cumulative return over the time frame, a maximum drawdown of 51% peak to trough in a standard deviation of 26.

The traditional 60-40 had much return, declining 24% on an annualized basis and 29% cumulative. The maximum draw down was only 33% in a standard deviation of 16. The global tactical benchmark during this crisis period declined on an annualized return basis of 16%. 16% is not a good return. However, compared to more than double that for global equities, illustrates just how much tactical could be a risk absorber in bad markets.

Another example is that the maximum draw down from peak to trough the global tactical 200 slash 50 benchmark, the maximum draw down was only 20% compared to 51% for global equities. A great illustration of how tactical can help during a bear market during the difficult times.

Any rational investor would be very happy to have experienced such a minor loss during such a turbulent and difficult period. But it cuts both ways. Here we have the bull market case. We're going to take the most recent bull market as of this recording. And that's the three-year bull market from 2023 through 2025.

Global equity annualized at about 20%, while a 60-40 portfolio at about 13.5 and global tactical at about 15%. So a less of a return. There still was less volatility, though. The standard deviation of global equities during this upside was about 12 versus about 10 for global tactical and about 9 for the 60-40 portfolio. And as far as the maximum drawdown, which was not much for a three-year period, for global equities to only have a 10.6% maximum drawdown, that's about as smooth as you're gonna see.

But still, you can see that the 60-40 portfolio and the tactical portfolio were both at about an 8% drawdown. Cumulative during the period, just looking at the global equity versus global tactical, you're looking at a 71% return versus 52. So, in a bull market, in a solid market, tactical will cost some upside, which is the price to pay for massive downside protection during the worst markets.

Summary and conclusion. These strategies, don't ever think of them as being right or being wrong. Think of them as being always consistent and systematic. This is not market timing. That is impossible. Market timing is picking tops and bottoms. What this is, is called managing risk. Information comes from the market itself.

By definition and design, these strategies are always a little bit late. They reduce risk after markets have declined a bit, and they add positions back after a recovery has started. And that's because they are not predictive. They are reactive. This is important. Any strategy that reduces risk also reduces return in the long run. In the long run, the higher the risk, all things equal, the higher the expected return.

That's just how it works. Anything that reduces risk will reduce some return. And of course, in a bull market, tactical strategies will lag a fully invested benchmark. Investors incorporating tactical risk management accept this lower return

© 2026 Grimes & Company | One Technology Drive, Suite 100, Westborough, MA 01581

in the long run for a lot less downside during the scariest of times.

Another issue is that tactical strategies can be less tax sensitive than staying invested because there will be times when gains are taken and taxes have to be paid. Investors should keep this in mind. We would consider these strategies to be excellent for retirement accounts and other non-taxable accounts.

Also, we recommend investors considering these methods to use them for part of the portfolio. Having some fully invested strategies and then tactical risk managed stock strategies along for a part of the account can provide some real peace of mind and the conviction to stay invested in the other portion of the account.

In conclusion, no strategy is perfect and we believe in blending strategies together to provide the perfect individualized experience for each different client situation and personality.

Tactical equity investing can be a powerful addition to a diversified portfolio, providing peace of mind during the most difficult of times. Please consult one of our wealth managers for more information.

Also, please read the disclosures and above all remember past performance is not indicative of future results and investing is risky.

Thank you.

IMPORTANT DISCLOSURES:

Tactical Risk Management systems are designed to adjust investment exposure in response to changing market conditions and seek to reduce portfolio risk. Market exposure may range from 100% invested to 100% uninvested, with uninvested assets allocated to money market or other short-term investments.

This presentation is intended for general information purposes only. No portion of the presentation serves as the receipt of, or as a substitute for, personalized investment advice from Grimes & Company Wealth Management, LLC (d/b/a Grimes & Company) ("Grimes") or any other investment professional of your choosing. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy, or any non-investment related or planning services, discussion or content, will be profitable, be suitable for your portfolio or individual situation, or prove successful. Neither Grimes' investment adviser registration status, nor any amount of prior experience or success, should be construed that a certain level of results or satisfaction will be achieved if Grimes is engaged, or continues to be engaged, to provide investment advisory services. Grimes is neither a law firm nor accounting firm, and no portion of its services should be construed as legal or accounting advice. No portion of the video content should be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if Grimes is engaged, or continues to be engaged, to provide investment advisory services. Copies of Grimes' current written disclosure Brochure and Form CRS discussing our advisory services and fees are available upon request or at www.grimesco.com.