

Cash Allocation Strategy

Profit Prophets

Jackson, Trevor, Ishmit, Ryan

11/25/24

Cash
iShares



Executive Summary



Objective

To balance risk and return, ensuring liquidity for flexibility while maximizing potential returns from equity investments.



Goal

Cash allocation ensures liquidity for market opportunities while providing risk insulation to reduce portfolio volatility and preserve capital by managing potential returns.



Recommendation

Allocate 5% in cash for liquidity, 28.5% in Risk Free ETF for stability, and 66.5% in Market ETF



Our Proposal

5%

Cash

66.5%

Market ETF

28.5%

**Risk Free
ETF**



Strategy Rationale

Why SPY (Market ETF)?

- Growth Potential
- Liquidity
- Low Management

Why ICSH (Risk Free ETF)?

- Capital Preservation
- Low Risk
- Stable Return

Why Cash?

- Safety Buffer
- Flexibility
- Strategic Dry Powder












Target Beta

- Target Beta of 0.7
- Risk and Return Balance



SPY

Annual Total Return (%) History

Year	SPY	Category
2023	 26.19%	22.32%
2022	 -18.17%	-16.96%
2021	 28.75%	26.07%
2020	 18.37%	15.83%
2019	 31.22%	28.78%
2018	 -4.56%	-6.27%
2017	 21.70%	20.44%
2016	 12.00%	10.37%
2015	 1.25%	-1.07%
2014	 13.46%	10.96%
2013	 32.31%	31.50%

Trailing Returns (%) Vs. Benchmarks

Monthly Total Returns	SPY	Category
YTD	20.85%	18.07%
1-Month	-0.91%	-1.09%
3-Month	3.63%	2.94%
1-Year	37.82%	34.50%
3-Year	8.99%	7.49%
5-Year	15.19%	13.63%
10-Year	12.90%	11.47%

Images: Yahoo Finance



SPY Composition

Index Sector Breakdown as of Nov 21 2024

Information Technology 31.77%	Consumer Discretionary 10.53%	Health Care 10.49%	
	Communication Services 8.90%	Consumer Staples 5.65%	
Financials 13.82%		Industrials 8.57%	Energy 3.50%
	Utilities 2.47%		

Index Top Holdings as of Nov 21 2024

Name	Weight
NVIDIA Corporation	7.17%
Apple Inc.	6.91%
Microsoft Corporation	6.10%
Amazon.com Inc.	3.68%
Meta Platforms Inc Class A	2.45%
Alphabet Inc. Class A	1.95%
Tesla Inc.	1.87%
Berkshire Hathaway Inc. Class B	1.72%
Alphabet Inc. Class C	1.62%
Broadcom Inc.	1.52%

Images: ssga.com



ICSH

BlackRock Ultra Short-Term Bond ETF

Nov-25-2023 to Nov-25-2024

Benchmark Comparison		
	6	Return
XBIL	1.235%	5.423%
ICSH	1.271%	5.951%

Benchmark : XBIL

Jun-30-2024

	1 Year	3 Year	5 Year	10 Year	Since Inception
NAV	5.87%	3.04%	2.44%	1.93%	1.86%
Market Price	5.83%	3.02%	2.43%	1.93%	1.86%
Benchmark	5.46%	3.00%	2.25%	1.64%	1.56%

Benchmark : ICE BofA US 6-Month

Expense Ratio : 0.08%

Images: ssga.com



ICSH Composition

TOP SECTORS (%)

Other Note	28.08%
Financial Company Commercial Paper	18.14%
Certificate of Deposit	15.21%
Floating Rate	14.22%
Commercial Paper	9.83%
Tri-Party Repo	7.54%
Asset Backed Commercial Paper	3.69%
U.S. Treasury Debt	1.74%

TOP HOLDINGS (%)

TRI-PARTY WELLS FARGO SECURITIES L	1.64
TRI-PARTY GOLDMAN SACHS & CO. LLC	1.64
TRI-PARTY BOFA SECURITIES INC.	1.00
OVERSEA-CHINESE BANKING CORPORATIO 144A	1.00
SUMITOMO MITSUI BANKING CORP (NEW	0.91
WESTERN UNION CO 144A	0.85
MARRIOTT INTERNATIONAL INC 144A	0.84
AMERICAN HONDA FINANCE CORPORATION	0.84
DNB BANK ASA 144A	0.83
IONIC FUNDING LLC SERIES III	0.82
	<hr/>
	10.37

Images: ssga.com



ICSH Composition

CREDIT RATINGS (%)



MATURITY BREAKDOWN IN DAYS (%)



Images: ssga.com



Purpose of Cash in Portfolio



Key Takeaway: Earn as much value from as possible a flexible cash position while reaching target beta of 0.70



How to Purchase

**Liquidate \$49,213 of
ICSH for 5% Cash**

Risk insulator, thus can
be liquidated

Currently invested in
ICSH, nothing to
address



**SPY of \$625,938 to
Allocate**

Timing Risk :
Purchasing all at once

Solution :
Four Equal purchases of
\$156,484 over four
weeks



How to Liquidate

Liquidate Evenly

Assumed reduction is proportional; IE. 70/30

Exceptions Must be Stated

High Beta = take more
from SPY

Low Beta = take more
from Money Market



SWOT Analysis

- **S&P Growth:** Expected to be around 11% in 2025.
- **Beta:** .7 is in line with fund risk metrics. Allows us to Balance our Beta with our uninvested funds.
- **Stability of Money Market Account:** provides a safe haven for 30% of our uninvested capital
- **Liquidity:** These options are very liquid and provide easy cash conversion

Strengths

Opportunities

- **Economic Growth:** SPY could benefit from increased corporate earnings and stock price appreciation.
- **Interest Rate Environment:** Favorable Interest rate environment would lead to higher returns from the money market.
- **Tech Advancement:** Growth of AI and other Tech would lead to growth in SPY.

- **Market Volatility:** SPY is subject to market volatility, leading to fluctuations in value.
- **Limited Growth potential of Money Market:** Lower returns compared to equities, which limit overall portfolio growth.
- **SPY Expense Ratio:** Higher than several similar ETFs, and could impact returns.

Weaknesses

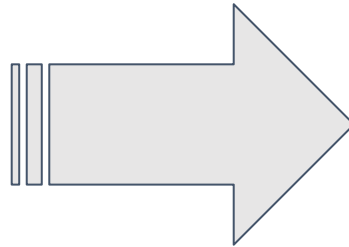
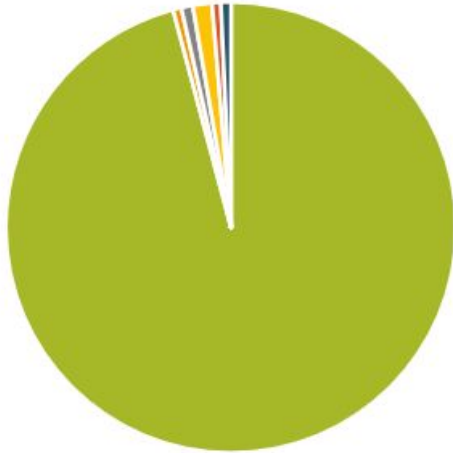
Threats

- **High Concentration in Big Tech:** Larger Sensitivity to Tech specific downturns and regulatory changes affecting Tech.
- **Limited Diversification:** Heavy concentration in certain sectors limit the benefits of diversification. Could pose higher risk of these sectors underperform.



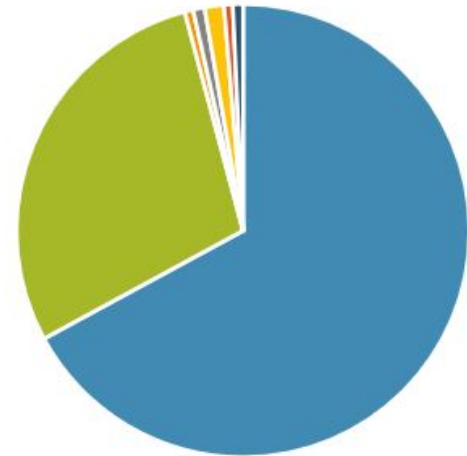
Effect on the Portfolio

Portfolio Weights Before



Portfolio Weights After

- SPY
- ICSH
- GDDY
- PEP
- CBRE
- META
- UBER



Portfolio	Exp. Return	St. Dev	Beta	Sharpe Ratio*	Idios. Risk*	Info. Ratio*
Existing	0.68%	1.55%	0.05	-2.45	?	?
Adjusted	9.03%	13.02%	0.72	0.35	?	?

Summary & Recommendation

Strategy Merits



- a) **Target Metrics**
- b) **Market Exposure**



- a) **Timing of Purchase**
- b) **Idios. Risk**



- a) **Market Volatility**
- b) **High Concentration in Big Tech**

Action Plan



- **Recommendation:**
 - **5% to Cash**
 - **66.5% to SPY**
 - **28.5% to the Money Market Account**

Appendix



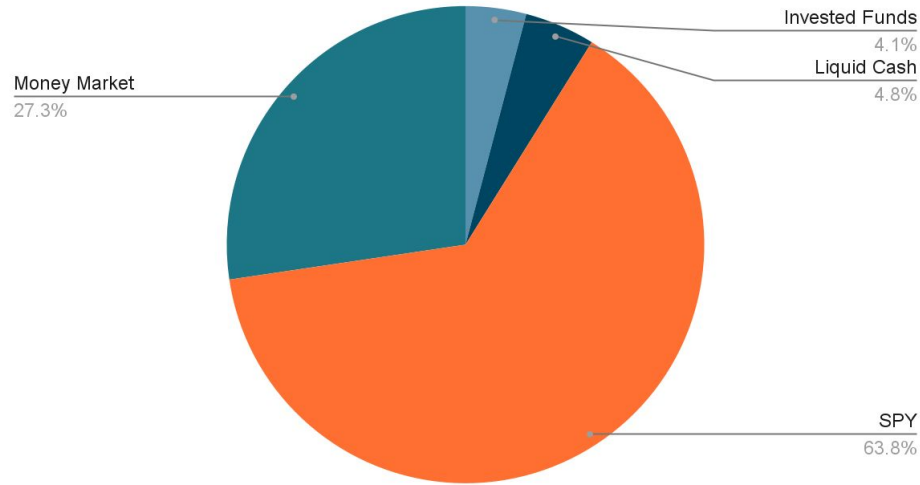
Review of Our Fund Metrics

ASSETS UNDER MANAGEMENT						
Fund	Value	Week	Month	β	σ	Sharpe
MSIF (w/Cash)	984,256	0.17%	0.29%	0.05	0.17%	-5.16
Target	1,032,273	0.37%	1.58%	0.70	12.0%	1.00
Diff.	\$ (48,017)	-0.19%	-1.29%	-0.65	-11.83%	-6.16



Effect on the Portfolio

MSIF Portfolio



Portfolio	Exp. Return	St. Dev	Beta	Sharpe Ratio*	Idios. Risk*	Info. Ratio*
Existing						
Adjusted						



Key Terms

Performance Metrics

- **Alpha (α):** Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.
- **Sharpe Ratio:** Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.
- **Sortino Ratio:** Similar to Sharpe, but only considers downside risk, ignoring positive volatility.
- **Information Ratio:** Measures returns above a benchmark relative to the tracking error.
- **Treynor Ratio:** Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap:** Total value of a company's shares (Share Price \times Total Shares Outstanding).
- **P/E Ratio:** Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.
- **Rebalance:** Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.
- **Idiosyncratic Risk:** Risk unique to a specific asset, not due to market movements (e.g., company-specific events).
- **Systematic Risk:** Market-wide risk that affects all securities (e.g., interest rate changes).
- **Standard Deviation (σ):** Measures volatility by showing how much returns deviate from the average.
- **Max Drawdown:** The maximum observed loss from peak to trough during a specific period.
- **SML (Small Minus Large):** Measures the excess return of small-cap stocks over large-cap stocks.
- **HMB (High Minus Low):** Measures the excess return of high book-to-market stocks over low book-to-market stocks.

