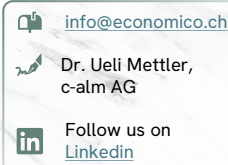# Economico Flash ⚡ #18

Investment strategy: Selection of asset classes

Chart of the week: Asset classes for Economico standard strategies

Asset Class	Benchmark Index
Money market CHF	FTSE CHF 3M
Bonds CHF	Swiss Bond Index AAA-BBB
Equities Switzerland	Swiss Performance Index
Equities World	MSCI World Developed Markets Index
Swiss Real Estate	SXI Real Estate Fund Index

Source: Own representation

The decision as to which asset classes are taken into account when putting together an investment strategy is **of absolutely central importance**. First some semantics: The terms "asset class" and "investment category" are used synonymously. However, both terms are abstract in nature: the term "Swiss equities" neither specifies the specific investment instruments and weighting to be invested in, nor does it provide a measurable investment return. An asset class only becomes economically tangible through the allocation of a benchmark index: an index contains a concrete investment instruction as to which securities should be purchased with which weighting and delivers a measurable performance. The specification of the associated benchmark index goes hand in hand with the choice of asset class.

As an investor, it is therefore worthwhile looking at the construction principles of the associated benchmark for each asset class. On Economico, we have prepared a factsheet with useful information for each index.

The Economico standard strategies now only require five asset classes. Meanwhile, the Augur forecasting application, which we presented in Flash 17, maintains over 90 different asset classes. How can you go from so few to so many asset classes (and vice versa)?

- **Aggregation level:** The number of asset classes depends crucially on the choice of aggregation level. The global equities asset class can be considered as an asset class by assigning a global market index (typically MSCI World Developed Markets). Or you can go down to the regions or even individual countries and consider them as separate asset classes. This is just one of many classification options that have a direct impact on the number of resulting asset classes.

- **Consideration of niche segments:** The financial industry is not running out of ideas to constantly create new asset classes, be it "hedge funds", "private equity", commodities, "microcredit", cryptocurrencies - to name just a few. Of course, this is not entirely without self-interest, as the implementation of these niche segments can generate a higher margin than in the standard categories.

A detailed breakdown of the investment strategy - as is possible in Economico with the specification of an individual strategy - makes sense if you have specific preferences and/or a clear investment opinion on individual sub-categories. In all other cases, you are best served with a few, broadly defined asset classes, firstly because empirically only a few outperform this (simple) breakdown approach and secondly because you can implement this investment strategy simply, transparently and cost-efficiently.

Takeaways

- Each asset class has a benchmark

- The use of a few, broadly diversified asset classes enables simple and cost-efficient implementation.