

Optimal Strategic Asset Allocation for Small and Medium Enterprises (SMEs) towards Financial Sustainability

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Abstract

Asset allocation is an essential strategy for investors, individuals, or entities like Small and Medium-sized Enterprises (SMEs). Achieving an optimal asset allocation is crucial to minimize the risk and maximize the return of an investment portfolio. While portfolio income from investments is considered by many as merely an auxiliary source of income to businesses, sales revenue being their primary source, the impact of investments in achieving financial sustainability cannot be ignored. This doctoral dissertation probes into the profile and investment strategies of SMEs that invest in various financial asset classes, the extent to which investment factors affect their asset allocation decisions, and the challenges that confront them with managing their overall investment portfolio. The study utilized mixed research methods, both Quantitative and Qualitative, and descriptive and correlational designs to describe the SME respondents' profile and test their significant relationship with asset allocation strategies and practices. The study revealed that the total assets, sales growth, net income, length of the investing period, and years of operations significantly influence SMEs' asset allocation practices and strategies. However, neither the business category nor the number of employees has a substantial impact on how SMEs allocate their assets. As for the challenge confronting SMEs concerning asset allocation, managing and measuring risks posed a significant hurdle for them. Cognizant of their portfolio preferences, measuring risks was also the aim of this study. Through the Mean-variance Optimization (MVO) developed by Markowitz in his Modern Portfolio Theory, risks of preferred asset allocations of SMEs were calculated to show the efficient frontier optimal asset allocation, the level at which risks are minimized, and returns are maximized.

Keywords: investment, optimal strategic asset allocation, small and medium enterprises (SMEs), financial sustainability, mean-variance optimization, Philippines