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Now is not the time to ignore alternative investments

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From **Cor Capital**

The global outlook from a fundamental economic standpoint is clearly one of a high degree of risk. Yet, the price for all forms of risk assets seems to continually defy all the negative outlooks, underscoring the power of central banks and their ability to create liquidity and expand the money supply.

“This scale of market interference is staggering and likely needed to continue to stave off the eventual ‘end of cycle’ reckoning,” notes Davin Hood, Managing Director at Cor Capital, a Melbourne based investment manager.

“Traditional asset allocations have been heavily tied to equity market growth and the continual decline in risk free interest rates over the past 30 years. However, for the next period in markets, it is likely investors will not enjoy the same tailwinds given current valuations,” he adds.

“Expectations for traditional fixed income to buffer equity risk is diminished given global zero-risk free rates and high bond valuations. Traditional 60/40 type portfolios will face significant risk as bond and equity correlations increase.

“Therefore, in this scenario, it makes perfect sense that portfolio construction philosophies should be adjusted. This calls for increased allocation to alternative strategies to improve risk adjusted outcomes, setting up a potential golden era for liquid alternatives focused upon absolute returns to improve investor outcomes.”

Hood adds: “Larger institutions have always used a wide range of potential tools to meet uncertain future including alternatives and portfolio hedging. For example, some astute superfunds have been increasing their internal capabilities around derivatives, introducing long volatility allocations and utilising defensive option strategies.

“However, for retail investors and financial advisers, the menu of available solutions has been relatively narrow. This is understandable given the pre-requisites for daily liquidity, growing focus on passive SMA implementation and lower fees.

“The attraction of hedge funds and liquid alternatives is their ability to participate less or actively take advantage of negative market environments. This absolute return mindset should focus on the reduction of drawdowns to allow for the power of compounding of returns.

“Luckily, there are absolute return focused strategies that fit nicely into the liquid alternative bucket, or as a partial substitute for bonds, and even a core portfolio building block for risk adverse portfolios that avoid added complexity of many opaque hedge fund strategies which can be easily understood by investors- both large and small,” says Hood.
For example, “All Weather” multi asset portfolios with a focus on protecting capital is one straight forward option.

“These portfolios which are typically long-only multi asset portfolios aim to perform within all potential market environments including recession/growth and inflationary/deflationary environments,” says Hood.

Cor Capital Fund’s “All Weather” approach is the top ranked multi-asset portfolio for 1 and 5 year returns according to Morningstar.

“Cor Capital’s approach to absolute returns does not utilise complex strategies which include short selling, borrowing or any bank credit risk instruments. Instead we focus on providing a stable real return with an absolute return objective prioritising capital stability. The strategy avoids illiquidity premia and borrowing and instead focuses upon actively re-balancing its purposely designed portfolio to harvest volatility and provide a welcomed alternative source of return.”

Recent market volatility has presented ample opportunity for added return.

As of July 31, 2020, the Cor Capital Fund 1-year return net of fees was 11.62%.

Hood adds: “For investors seeking to reduce exposure to equity risk premia and gain higher rates of return than cash and bonds, all weather approaches that are designed for defending capital and withstanding market surprises, may be an attractive solution.

“Avoiding complexity in an increasingly uncertain world is a welcome relief.”

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