Alternative Investing

Key Design Choices When Building a Risk-Mitigating Portfolio

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The year 2022 saw more real wealth destruction than 2008, the year of the Global Financial Crisis, as measured by a traditional stock/bond portfolio. As a result, many investors have recently begun to reconsider the role of risk-mitigating portfolios within their broader asset allocations, which are typically dominated by equity risk.

We believe trend following deserves a prominent place in any serious risk-mitigation portfolio given 1) its ability to deliver positive long-run returns and perform well in both growth- and inflation-driven bear markets and 2) its unmatched performance during the prolonged drawdowns that are most likely to impair investors' ability to achieve long-term goals.[1] The most effective trend-following programs diversify across signals, combining both short-/long-term price and economic trend signals, and across asset classes, including harder-to-access alternative markets.[2]

About the Portfolio Solutions Group
The Portfolio Solutions Group (PSG) provides thought leadership to the broader investment community and custom analyses to help AQR clients achieve better portfolio outcomes.

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[1] Please refer to Exhibit 4 in the paper for empirical support.

[2] Please refer to Exhibits 5, 6, and 7 in the paper for empirical support.

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