White Paper

Time to Diversify – But into What?

The case for diversifying out of equities, and the role of liquid alternatives

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The last 10 years were exceptional for traditional stock/bond portfolios. But with stock market valuations near all-time highs and bond yields near all-time lows, prospective returns look bleak.

Many investors – though not all – are looking to diversify away from equity risk. We believe this should be viewed as a strategic rather than merely a tactical goal. Market timing is difficult, and expensive markets can keep rising, but better diversification is a worthy strategic aim, and if equity markets are riding high, so much the better.

This begs the question, diversify into what? Many "alternatives" share the same underlying tail risks related to the state of the global economy, including private equity, real estate, credit, and anything with implicit exposure to equity and credit risks. The next market drawdown may not be as fleeting as the crash of March 2020, and the recovery may not be so rapid. Liquid alternatives can be powerful diversifiers in unfavorable market environments and may be a valuable addition to the investor's diversification toolkit.

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