



Insights

ISSUE 1 | MARCH

2016



We believe that controlling volatility and downside risk—within the construct of each investor's unique risk/reward tolerance—is an important step in meeting long-term financial goals.



We are true believers in the concept of diversification, both within and among the various asset classes and strategies that are available to our clients.

A MONTHLY INVESTMENT
COMMENTARY FROM YOUR
TRUSTED INVESTMENT
ADVISORS AT MONETA GROUP



by CHRIS JORDAN,
DIRECTOR OF ALTERNATIVE
INVESTMENTS

Alternatives: Absorbing the Shock of a Volatile Market

It's been a rough start for equities so far this year. The S&P 500 has fallen more than 10% in 2016, and other equity sectors were down similar—or even greater—amounts. This follows nearly six-and-a-half years of uninterrupted increases for the major domestic equity market indices, a period in which stock returns left just about every other asset class and strategy in the dust.

During bull markets like the one we just experienced, it can be easy to forget how quickly financial markets can reverse directions

and jeopardize one's goals and plans—or possibly even put them out of reach. At Moneta, we are true believers in the concept of diversification, both within and among the various asset classes and strategies that are available to our clients.

Unfortunately, diversification in traditional markets is becoming more difficult to obtain in today's low rate environment, and many investors have felt compelled to take on additional risk to achieve their investment objectives. The challenge now is to find

diversification without severely sacrificing return. So what are investors to do?

After the Credit Crisis, Moneta began diligently exploring “alternatives,” which are designed to provide diversification from stocks and bonds, with moderate risk and return over a market cycle. This was our answer to the challenges presented by a low yield environment and the increased correlation across asset classes and strategies,

continued...

Alternatives, continued...

“ During bull markets like the one we just experienced, it can be easy to forget how quickly financial markets can reverse directions and jeopardize one’s goals and plans—or possibly even put them out of reach. ”

which traditionally had provided diversification benefits. First we identified key attributes that we believed would be beneficial to add to a portfolio of traditional stocks and bonds. Then we looked for managers and strategies that would achieve those attributes. Our belief, based on experience, was that if we controlled risk, portfolio returns would be enhanced over time.

We formalized the Moneta Alternatives Mix* in mid-2011 and promptly watched domestic equities (and, to a lesser extent, bonds) provide healthy returns almost uninterrupted for four-plus years; in other words, it was an environment where being less diversified would have been more beneficial. However, since we

believe in strategic asset allocation as opposed to market timing, we continued to diversify portfolios through a mix of alternative strategies and have added several new managers and strategies along the way.

Fast forward to today where diversification away from equities has been beneficial to a portfolio. As of February 29, 2016, the Moneta Alternative Mix has performed in line with our expectations. In this difficult market for equities, possessing a robust toolbox (for example, having the ability to short or to not be constrained to one market sector) allows us to increase portfolio diversification and provide alternative sources of potential returns.

We believe that controlling volatility and downside risk—within the construct of each investor’s unique risk/reward tolerance—is an important step in meeting long-term financial goals. Bonds have traditionally been the single best way to provide equity-market risk mitigation by reducing volatility and drawdowns. They continue to provide those attributes to a portfolio but at great cost; specifically, little return, and a return that is, in many cases, less than inflation. We believe the conservative objective and engineered design of Moneta’s Alternative Mix is a potent tool to help investors significantly diversify their portfolios and augment the role of risk mitigation, which historically has been filled by high-quality fixed income.

+ Please note, these materials were prepared for informational purposes only and do not take into consideration your individual circumstances. This not an offer to purchase/sell securities. Past performance is not indicative of future returns. Alternative investments possess features and risks distinct to the individual investment vehicle, and any decision to invest in such vehicles should be made based on your individual circumstances in consultation with appropriate financial professionals.



1.314.726.2300
monetagroup.com

MONETAGROUP®