

How can alternative strategies improve a portfolio's risk-return profile?

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Alternative strategies, which are investment strategies that include the use of leverage and short selling, are designed to enhance a traditional investment portfolio's return, risk management and income potential.

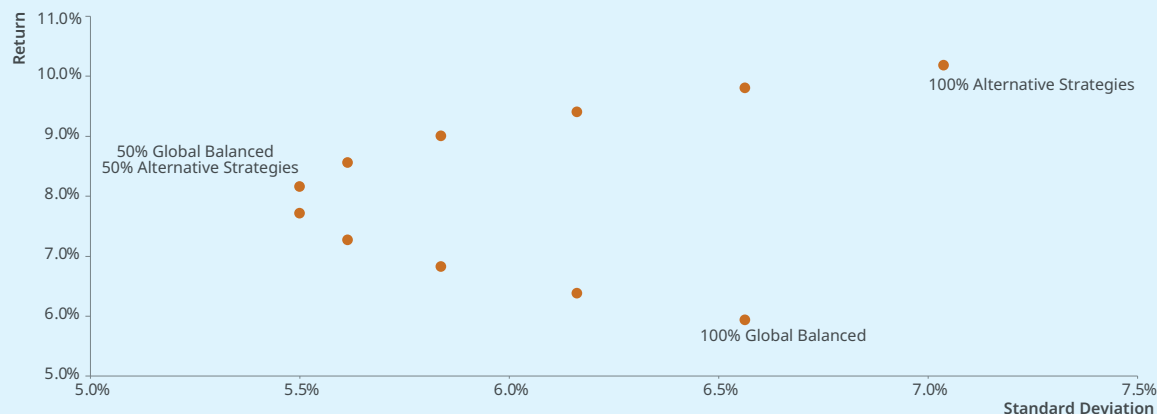
The visual below is known as an "efficient frontier" chart, and shows how introducing different investments may impact a portfolio's risk-and-return characteristics. The ideal situation is to be in the upper-left corner of the chart, as that would represent a portfolio with the highest historical returns (measured on the vertical "y" axis) and lowest historical risk (measured by standard deviation on the horizontal "x" axis).

In our example, a portfolio of 100% alternative strategies has had higher returns with slightly higher risk over the January 1990-August 2021 period than a 100% global balanced portfolio.

While that is positive, even more effective would have been to combine alternatives strategies with a global balanced portfolio (i.e., global stocks and bonds). Having a portfolio diversified in this manner may result in an attractive rate of return with considerably less risk than either portfolio alone.

Alternative strategies can also have low correlation to traditional portfolio holdings (i.e., performance that tends to move in a different direction). Low correlation offers the potential for stronger diversification and potentially smoother returns with less overall risk over the long term.

Risk-Return Global Balanced & Alternative Strategies Jan 1990 - Aug 2021



Source: Morningstar Direct, Global Balanced represented by the Canada Fund Global Neutral Balanced CIFSC category, Alternative Strategies represented by blend: 1/3 HFRI Relative Value TR Index, 1/3 HFRI Equity Hedge TR Index, 1/3 HFRI Macro TR Index. Return numbers are in Canadian dollars. Hedge Fund Research (HFRI) is the established global leader in the indexation, analysis and research of the hedge fund industry. HFRI Indices are considered the industry standard benchmarks for hedge fund performance.