MACKENZIE
Investments

Accessible Alternatives™

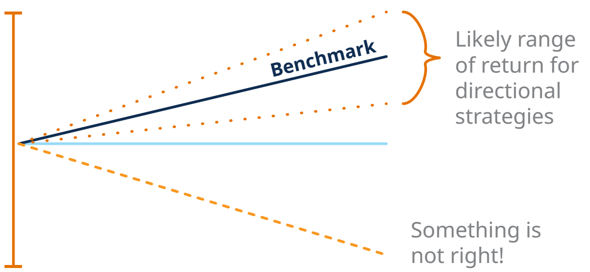
A new way to diversify

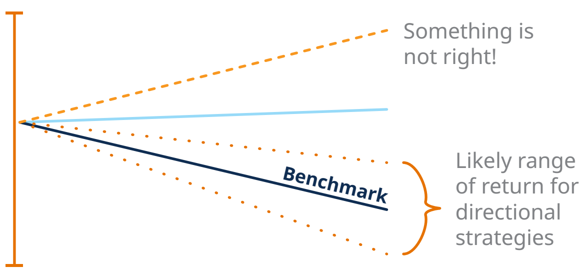
How non-directional strategies can deliver diversification

We would probably all agree that diversification is essential, given how none of us can predict the future. As we've recently seen, anything can happen. However, most investors diversify by combining investments from different asset classes or segments of asset classes. These investment strategies measure success in terms of their performance relative to specific benchmark indexes within each asset class.

These index-oriented strategies are directional: this means that they generally follow the direction of their benchmark indexes. If a strategy outperforms its benchmark, then that's good; if it underperforms, then that's not good; and if it consistently moves in a very different direction, something is very wrong! The upshot is that these types of directional strategies can only be successful when their respective benchmark is successful.

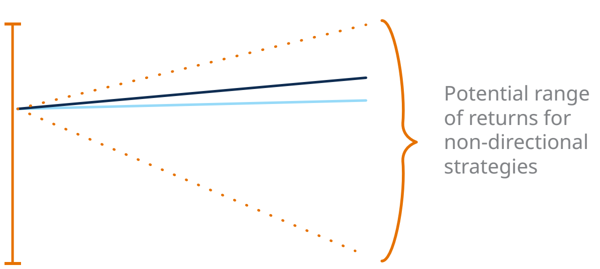
How directional strategies work

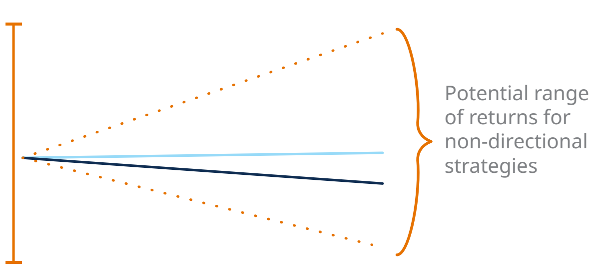




How non-directional strategies work

There's another type of diversification that's often overlooked: using non-directional strategies, which aim to perform independently of market indexes. These strategies have access to a wider range of asset classes than those available to traditional, directional strategies. These asset classes include currencies, commodities and other alterative investments that are less likely to track the direction of equity and bond markets. They can also access non-directional sources of alpha, which are investments that move independently of the general direction of the asset class they operate in.





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Non-directional strategies include the use of shorting. By being able to go long on one security (or market) and short another, non-directional strategies can isolate the return from the changes in the valuation gap between the two investments. They can then separate that return from overall market movements that influence both investments.

Examples of non-directional investment strategies include:

- Equity or fixed income single-name long-short security selection
- Equity or fixed income sector or regional long-short selection
- Relative value commodity or currency long-short pairs trading

The problem with focusing on directional strategies

Many investors today are only invested in relative return strategies. The problem with this is that they've only diversified using a range of directional strategies, which means that their portfolios are ultimately driven by the direction of market indexes.

To have a more comprehensive diversification, investors should consider adding absolute return strategies that can utilize both directional and non-directional strategies.

Absolute return strategies can bet long, short or market neutral in any asset class. They can combine directional trades that bet on an asset class going up or down over a given time horizon with non-directional long-short trades, which don't follow the direction of market indexes.

Incorporating an allocation to a global macro strategy is an effective way for investors to improve portfolio diversification.

This allows for absolute return strategies that can bring a variety of benefits:

- More comprehensive diversification
- Reduced losses in downturns
- Better risk-adjusted returns
- Less portfolio volatility

Achieve greater diversification with our accessible alternatives

The introduction of liquid alternative mutual funds in Canada has made it easier for investors to achieve a more complete degree of diversification.

For example, Global Macro strategies, such as Mackenzie's Global Macro Fund, are mutual funds that make wide use of non-directional strategies. The aim is to generate return patterns that can be very different from those found in traditional long-only stock, bond and balanced funds. Incorporating an allocation to a global macro strategy is an effective way for investors to improve portfolio diversification.

**Explore whether alternative investments are an appropriate choice for you.
Speak to your financial advisor today.**

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