



MACKENZIE  
Investments

# How much should I consider investing in a liquid alternatives fund?

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The amount you should consider investing in liquid alternatives depends largely on your investment objectives, risk tolerance and investment time horizon. Your advisor can provide guidance to you in relation to these variables.

**If you're looking to enhance an existing model portfolio with a liquid alternative strategy, the appropriate amount of liquid alternatives to allocate will depend on several factors – such as correlation, volatility and expected return – relative to the existing portfolio.**

When determining allocation size, also consider how much you're willing to let this new investment influence the future return stream of your total portfolio. Remember, if you are introducing liquid alternatives to reduce your total portfolio's reliance on the direction of equity markets, your portfolio's performance may lag when stock markets are hot. How much periodic short-term portfolio performance differences can you withstand in order to achieve potentially better risk-adjusted returns (or a higher rate of income) over the long term?

As well, you may consider tracking error to help determine position sizing of liquid alternatives. Tracking error is a measure of how much you expect your return to differ (plus or minus) from those of a benchmark under normal circumstances. Generally, the more differently a fund behaves relative to a model portfolio or benchmark, the higher the tracking error, and the smaller position you need in order to have a meaningful impact on your portfolio.