MACKENZIE
Investments

What are alternative strategies?

Alternative investing includes alternative strategies that utilize sophisticated investment techniques, such as leverage, taking short positions and using derivatives. In general, alternative strategies are structured to hold a wide range of traditional and non-traditional financial assets, but they are managed using non-conventional methods.

For instance, leverage is the strategy of using borrowed money to potentially increase the return on a particular investment. Shorting is the ability to profit when the value of a given security declines. Derivatives are financial instruments whose value is linked to the price of a given underlying security, such as a stock.

Alternative strategies are powerful investment tools that can help an investor target certain risk-return characteristics. The goal is to generate a different pattern of risk and return in comparison to traditional investments – potentially even making profits when traditional markets or securities are declining in value.

Examples of alternative strategies[1]:

1 Long/short equity

Long-short portfolios hold sizeable stakes in both long and short positions in equities, exchange traded funds, and related derivatives. The strategy seeks to profit from stock gains in the long positions as well as stock price declines in the short positions.

2 Long/short credit

Long/Short Credit strategies seek to profit from changes in the credit conditions of individual bond issuers and credit markets segments represented by credit indexes. Typically, portfolios purchase bonds, or sell credit-default swaps, with the expectation of profiting from narrowing credit spreads; or, the funds sell bonds, or purchase credit-default swaps, with the expectation of profiting from the deteriorating credit of the underlying issuer.

3 Market neutral

Market neutral strategies attempt to reduce systematic risk created by factors such as exposures to sectors, market-cap ranges, investment styles, currencies, and/or countries. They try to achieve this by matching short positions within each area against long positions. These strategies are often managed as beta-neutral, dollar-neutral or sector-neutral.

4 Managed futures

Managed futures strategies primarily trade liquid global futures, options, swaps, and foreign exchange contracts, both listed and over-the-counter. A majority of these strategies follow trend-following, price-momentum strategies.

5 Volatility

Volatility strategies trade volatility as an asset class. Directional volatility strategies aim to profit from the trend in the implied volatility embedded in derivatives referencing other asset classes. Volatility arbitrage seeks to profit from the implied volatility discrepancies between related securities.

6 Macro

Macro strategies are predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches and long- and short-term holding periods.

7 Multi-alternative

Multi-alternative strategies offer investors exposure to several different alternative investment tactics. These funds have a majority of their assets exposed to alternative strategies.

1 Strategy definitions based on Morningstar Category Classifications and HFR Strategy Classifications.