

The rising tide of liquid alts

Why now may be the time to take the plunge



By: Ruth Williams

Talking Points

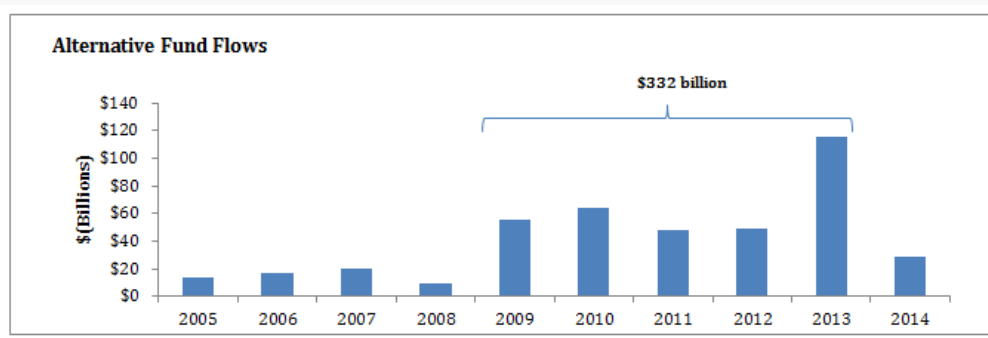
Diversification, Liquid Alts



Liquid alts (liquid alternative investment strategies) are becoming mainstream. And smart advisors will want to be prepared to talk to clients about what liquid alts are and why they matter.

There is nothing like a financial crisis to help motivate investors to shift their attention from the pursuit of alpha (excess returns) to downside protection and capital preservation. The 2008 financial crisis and recession did just that and triggered record demand for liquid alts as investors sought new forms of diversification and the search for yield underscored the merits of uncorrelated investments.

During the five years following the financial crisis (2009 – 2013), approximately \$332 billion flowed into liquid alts—more than 78% of all alternative fund flows for the 10-years spanning 2005 – 2014.



Source: Lipper. Estimated net flows include traditional funds, exchange traded funds, and

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funds of funds.

And while it may appear that there was a lull in 2014, demand for liquid alts is expected to remain strong. According to a report by McKinsey & Company, liquid alt assets could easily surpass \$900 billion by the end of 2015.¹

Sometimes it makes sense to zig when others zag

In general, most alternative investment strategies do not move in tandem with traditional stocks and bonds—which is why incorporating alternative investments into your portfolio mix can be an important part of any diversification strategy.

Correlation can help you identify which investments may move to the beat of a different drummer:

Correlations as of 4/30/2015				
Alternative investment strategies	1 Year	3 Years	5 Years	10 Years
Alternative investment strategies	1.00	1.00	1.00	1.00
International stocks	0.75	0.70	0.82	0.78
US Small-cap stocks	0.45	0.66	0.74	0.65
US Large-cap stocks	0.66	0.77	0.81	0.72
US Bonds	-0.17	-0.07	-0.22	0.02

Correlation is a statistical measure of how one or more assets move in relation to a base variable or benchmark.

Correlations range between +1.00 indicating a positive correlation and -1.00 indicating a negative correlation. A zero correlation implies there is no relationship.

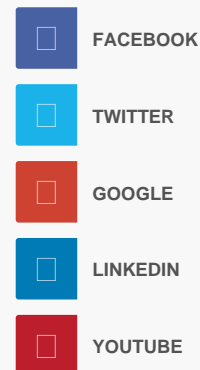
Source: Morningstar Direct as of 5/8/2015. Past performance does not guarantee future results. This table is for illustrative purposes only and is not intended to represent any Transamerica fund. You cannot invest directly in an index. Alternative investment strategies are represented by the HFRX Global Hedge Fund Index, which includes equity hedge, event driven, macro/CTA (commodity trading advisor), and relative value arbitrage strategies. International stocks are represented by the MSCI Europe, Australasia Far East (EAFE) Index. US Small-cap stocks are represented by the Russell 2000® Index and US Large Cap stocks are represented by the S&P 500®. US bonds are represented by the Barclays US Aggregate Bond Index.

So, what exactly is a liquid alt? Your clients may want to know.

Liquid alts are an often misunderstood asset class because there is no standard definition. The alt universe is constantly evolving and is as vast as it is varied. Alts are a catchall category of investments that provide sources of return different than what you would generally get from traditional stocks and bonds.

Common examples of alternative investments include equity long/short, real estate investment trusts (REITs), nontraditional bonds, commodities (such as gold, cotton and coffee), energy master limited partnerships (MLPs), managed futures, and event driven and market neutral strategies.

Liquid alts are alternative investments and strategies packaged as investment vehicles registered under the Investment Company Act of 1940 (also called '40 Act funds) that provide daily liquidity such as mutual funds, exchange traded funds (ETFs), and closed end funds.



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Pros	Cons
<ul style="list-style-type: none"> • Access. Most liquid alts have low investment minimums and are available to a much wider audience of investors. • Liquidity. Daily pricing means liquid alts can be easily bought and sold. • Transparency. Better disclosure and portfolio reporting in the form of semi-annual reports and prospectus documents. 	<ul style="list-style-type: none"> • Not all alts make sense. Hedge fund classifications do not always translate easily and liquid alts may not be able to invest in certain illiquid investments. • Limited leverage. Liquid alts have restrictions on use of leverage that may hamper their results relative to their corresponding replicating hedge fund strategies. • No standard definition. Because there is no common industry definition, liquid alts typically use unconventional benchmarks.

With liquid alts, you can get the flexibility and convenience of a mutual fund vehicle combined with the potential for better returns with less risk. Some liquid alts may also provide less sensitivity to market volatility and interest rate movements.

Learn more about how liquid alt opportunities can help:

MLP & Energy Income

Multi-Manager Alternative Strategies Portfolio

Mutual funds are subject to market risk, including the loss of principal. Diversification does not guarantee a profit or protect against a loss.

Shares of the fund may only be sold by offering the fund's prospectus. You should consider the investment objective, risks, charges, and expenses of the fund carefully before investing. The prospectus contains this and additional important information regarding the fund. To obtain the prospectus and/or a summary prospectus, visit . The prospectus should be read carefully before investing.

1. http://www.mckinsey.com/insights/financial_services/how_alternative_investments_are_going_mainstream

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