Investing Insights



# what should I do with new money?

## Recession... Volatile Markets... Scary Headlines...

While no investment is completely immune to market volatility, there are several portfolio management techniques and investment strategies that are designed to help. The silver lining to increased market volatility is that it plants the seeds for the next period of rising economic growth and financial market stability.

### Do Utilize volatility thriving strategies

If a bear market for stocks is the "glass is half empty" view of current market conditions, then the more positive (and opportunistic) flipside is the view that we are currently in a bull market for volatility. Therefore, working with your financial advisor to utilize investment strategies that thrive in volatile markets is the key to success. These volatility thriving exchange traded fund (ETF) and mutual fund strategies include Covered Calls, Long/Short, Global Macro, Opportunistic Balanced Funds and Absolute Return. Keep in mind such strategies are subject to increased risk due to the use of derivatives and futures, may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

### Do Get in now and stay in

Not being invested when rebounds begin can mean not recouping all possible gains. Investors must have faith in their investment plan through down periods in order to be positioned to gain all of the upside potential of their portfolios when the down period ends. We continue to stress that the stock and credit markets are in the process of making a bottom and therefore, favorable investing opportunities exist.

### Do Maintain a diversified portfolio

It is unlikely that markets will directionally move up OR down. Rather, it is far more likely that markets will go up AND down. Thus, finding strategies that help with market volatility is the key to adding diversification to a portfolio of traditional investments, particularly now, when those traditional asset classes are all suffering together. Also, diversify within investment types - use multiple funds or managers and be careful of individual issue risk with individual securities.

### Do Consider Fixed Income

Now is one of those rare times when fixed income securities may potentially offer near equity-like returns. Ask your financial advisor if dollar-cost-averaging in to buy a diversified portfolio of both aggressive and high-quality fixed income securities might be best for you. High Yield Bonds, Investment Grade Bonds, Preferred Stocks and Leveraged Loans (bank loans) have all recently experienced dramatic decreases in returns, thus presenting an attractive entry point for potential future outperformance.

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During times like these it is important to remain patient and focused on your long-term goals.

## Don't Move to Commodities...right now

Any time an investment drops 50%, it is tempting to consider it for purchase. However, with so many areas of the market down 50% or more, there appear to be much better opportunities than commodities at this time. Remember, there are two elements to consider: the price and the timing. While the price of commodities doesn't seem too far away from "attractive" even with some additional downside potential, the real potential headwind for commodities is that the increasing economic growth they need for price expansion is not yet in view. Until economic growth returns, there are better investments.

## Don't Overallocate to REITs...right now

Over the last year, REITs have been as volatile as other equity sectors. While REITs have traded down to more attractive valuations, they still suffer from deteriorating fundamentals as job layoffs, bankruptcies, and limited liquidity hang over them. When positive sentiment returns to the market and stability returns to the economy, REITs will gain steam and provide a better opportunity.



GLOSSARY

Absolute Return: These funds blend multiple styles together with the goal of providing a positive return in all market conditions. These securities tend to have low volatility and provide bond-like returns. They also tend to have a very low correlation to bonds and low correlation to stocks. Because of their goal of low to moderate volatility, these securities are more suited for accounts with more moderate risk/return goals.

Covered Calls: These strategies typically hold a long portfolio of stocks and then sell Covered Calls. Some Covered Call strategies then buy puts to further protect against downside risk. The net result is a portfolio that is correlated to the broader markets, but with significantly less volatility.

Global Macro: These funds are similar to Managed Futures funds, but use fundamental inputs (focused on broad global economic themes) in their models as well as technical (or price related) inputs. Global Macro funds may also be less systematic than the typical Managed Futures fund. Historically, the benefit of Managed Futures and Global Macro has been solid long-term returns with very low correlation to equities and fixed income securities.

Long/short: These funds focus on managers who go long and hedge against the market through options or shorting equity securities with the goal of outperforming the market while limiting volatility. These funds tend to have a higher correlation to equities than other alternative strategies and, therefore, are most appropriate for more aggressive portfolios.

Opportunistic Balanced strategies: Balanced funds invest in stocks, fixed income securities, and sometimes, money markets. Traditional Balanced funds typically invest in some combination of "plain vanilla" securities: domestic and international stocks and fixed income investments—such as Treasury Bonds, Agency Bonds, Investment Grade Corporate Bonds, High-Yield Bonds, and Foreign Bonds. An Opportunistic Balanced fund will, in addition to the more traditional securities, use relatively more eclectic securities—Preferred Stocks, Convertibles, Synthetic Convertibles, Warrants, Futures, Options, Currencies, and others—with the goal of outperforming its benchmark.