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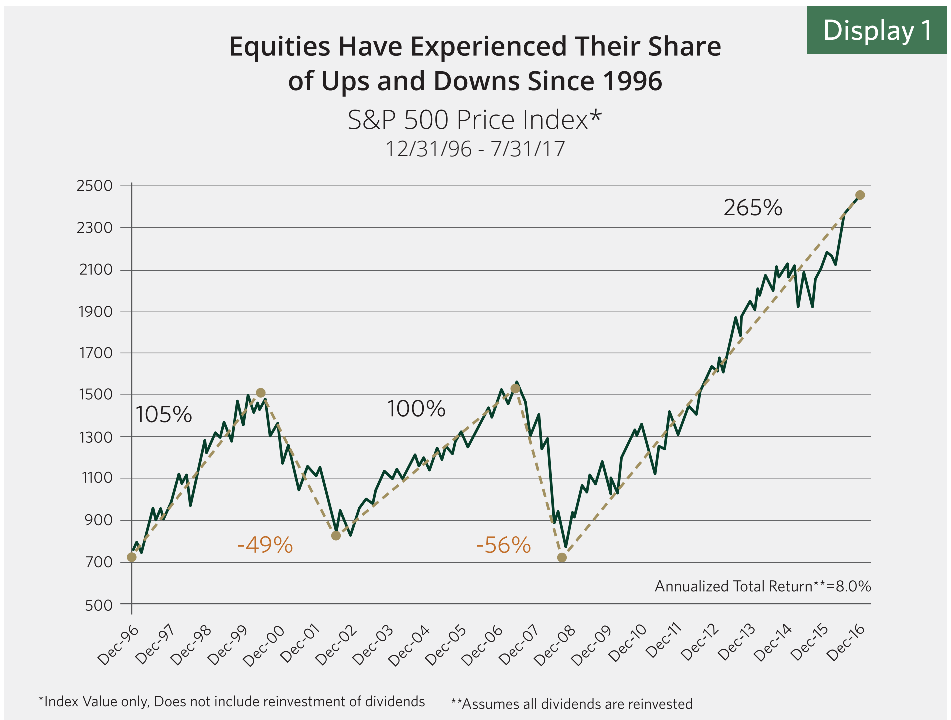
MONETA INVESTMENT MONTHLY

These Are the Good Old Days

We're more than eight years into stocks' historic bull run, and the exit sign for equities is nowhere in sight. Both globally and domestically, stock returns have been extremely robust, while volatility has been subdued. Aside from a couple of relatively short-lived but significant stock market dips in mid-2011, late 2015 and early 2016, equity investors are no doubt experiencing the good times.

How did stocks get to this point? In reaction to the 2008 global financial crisis, investors poured their assets into money-market funds and government securities at a furious pace. This flight to quality sent bond yields to historic lows and stocks tumbling. Meanwhile, central banks employed quantitative-easing measures beginning in late 2008 to lower interest rates and stimulate the economy. These factors helped set the stage for stocks to begin their slow but steady ascent.

The equity market has seen its share of peaks and troughs in the past 20-plus years (Display 1), and has recently hit new highs.



But how long can the party last? The answer is, no one knows—and this kind of uncertainty requires a contingency plan.

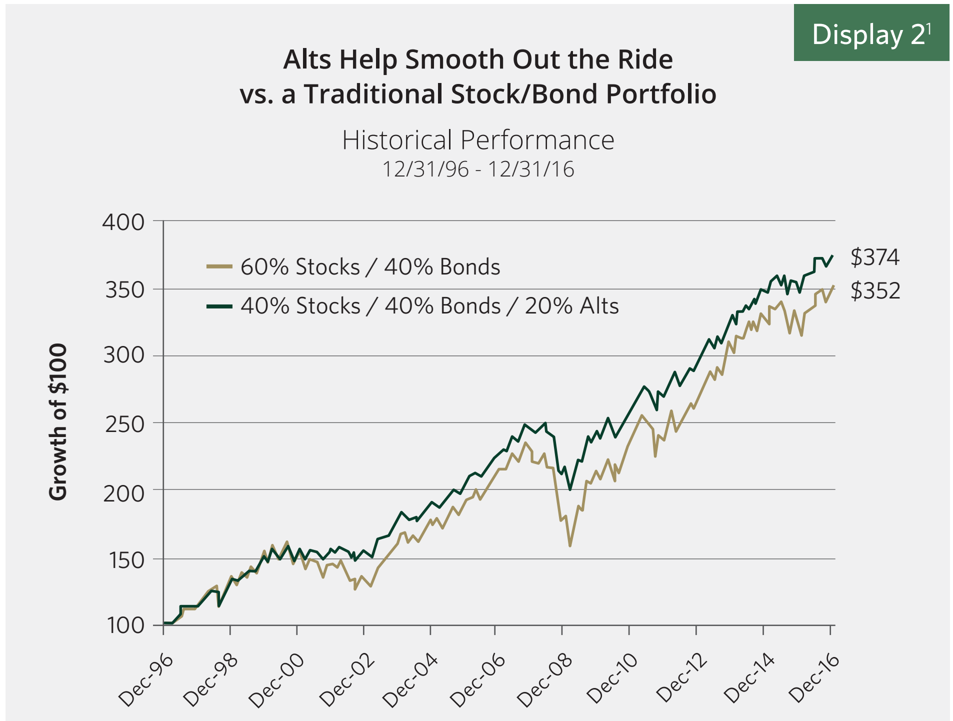
Diversification: Smoothing Out the Ride with Alternatives

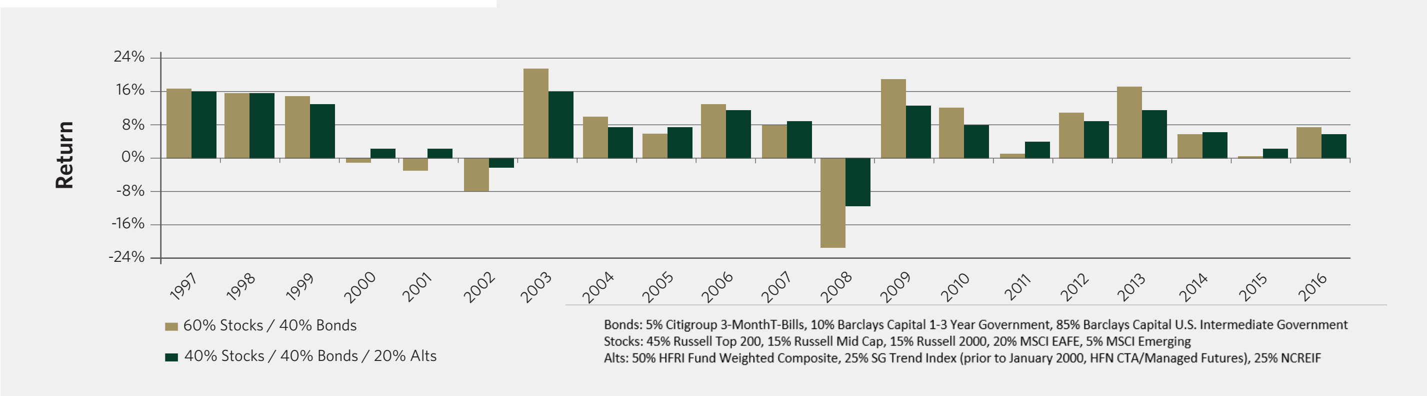
Bonds have traditionally been the diversifier of choice, helping to provide balance when stocks become volatile. Even though today's bonds still play an important role in a well-diversified portfolio, they don't have the same capacity to offset market stress as in the past.

Enter alternatives. An alternative strategy is not for investors who are expecting big wins like we've seen from the stock market. In contrast, at Moneta Group, we use alternatives conservatively to provide unique sources of investment returns that are not dependent on the performance of either the stock or bond markets—true diversification. Alternatives have the ability to provide positive returns when other markets are falling, which can smooth out performance and provide "dry powder" to rebalance the total portfolio.

Because of these diversification qualities, alternatives can also produce muted or even negative returns while stocks and bonds are performing well (as we have recently experienced). Often times, the conditions that allow one market or strategy to rally also cause another market or strategy to falter—every strategy has its "season."

For example, many hedge fund strategies have had lower returns over the past few years due to lower market volatility, extremely low short-term interest rates and high correlation among individual stocks (stocks are moving more in unison than independently). Managed futures, another strategy, depends on established market trends. They've been suffering lately due to the





listlessness and/or whipsawing nature of most non-equity markets. Though these U.S. Federal Reserve-induced subdued market conditions have been with us for a while, they can change very abruptly and are near impossible to predict. It's during these periods that alternatives demonstrate their value.

Over the longer time frame and multiple market cycles, alternative strategies have enhanced the performance of a purely stock/bond portfolio. For example, when looking at various indices over a 20-year period, a 40/40/20 stocks/bonds/alternatives portfolio may outperform a traditional 60/40 stock/bond portfolio (Display 2). Alternatives enhanced the performance of a traditional portfolio by reducing the losses in tough years, while not significantly dragging down the portfolio in the good years. It's not always what you make on your money over the longer term, but what you don't lose.

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[1]The results shown are intended to represent the growth of a $100 investment made into the various indices in the ratios set forth. This information does not reflect actual or model performance of any particular Moneta recommendation and is solely intended to illustrate the basis for Moneta's philosophy relative to the utilization of alternative investments within a portfolio. No addition or withdraws are contemplated. Past performance is not indicative of future returns.

Alternative strategies are not "one size fits all" constructions. An alternative mix is unique and dependent upon an investor's comfort level. That's why it's important to work with an experienced advisor to find the right fit. Successful alternative strategies make the road more navigable for investors by providing lower volatility, smaller drawdowns and manageable beta (market sensitivity).

Alternative strategies are ideal for investors who:

Embrace the principles of Modern Portfolio Theory.

Although it stems from the 1950s, this theory demonstrates that a diversified portfolio with a higher risk-adjusted return outperforms over time. In other words, the right strategy can help a portfolio withstand the storm in a downturn and lose less than the market.

Lean conservative and desire a higher return.

Conservative investors who'd like to increase their returns but aren't able to take on more stock or bond risk in their portfolios may find an alternatives strategy more appropriate.

Wish to reduce portfolio volatility.

Investors who worry about dramatic swings in equities in the short term and those fearful that higher rates will reduce their bond portfolio's value may be good candidates for alternatives.

Be Prepared, Whatever the Road Conditions

With stocks on a tear, many investors aren't going to pause and say, "Wait a minute, what's on the other side of this equity incline?" But as believers in the Modern Portfolio Theory—and diversification—we think that way of thinking is short-sighted. In our view, it makes sense to take advantage of the market's success, rebalance and diversify.

Again, alternative strategies are not for everyone. They can be complex, at times illiquid and have higher fee structures. But don't let this be a blind spot to the inherent risk in a heavy stock allocation or a portfolio not properly diversified. It's highly unlikely that this bull run will last forever, and downside protection with guidance from an expert can provide the right control for when the road becomes hard to navigate.

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