



# Market Movement

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## Investment Management

### Strategy

Patrick Ferrer

Regional VP- Southeast

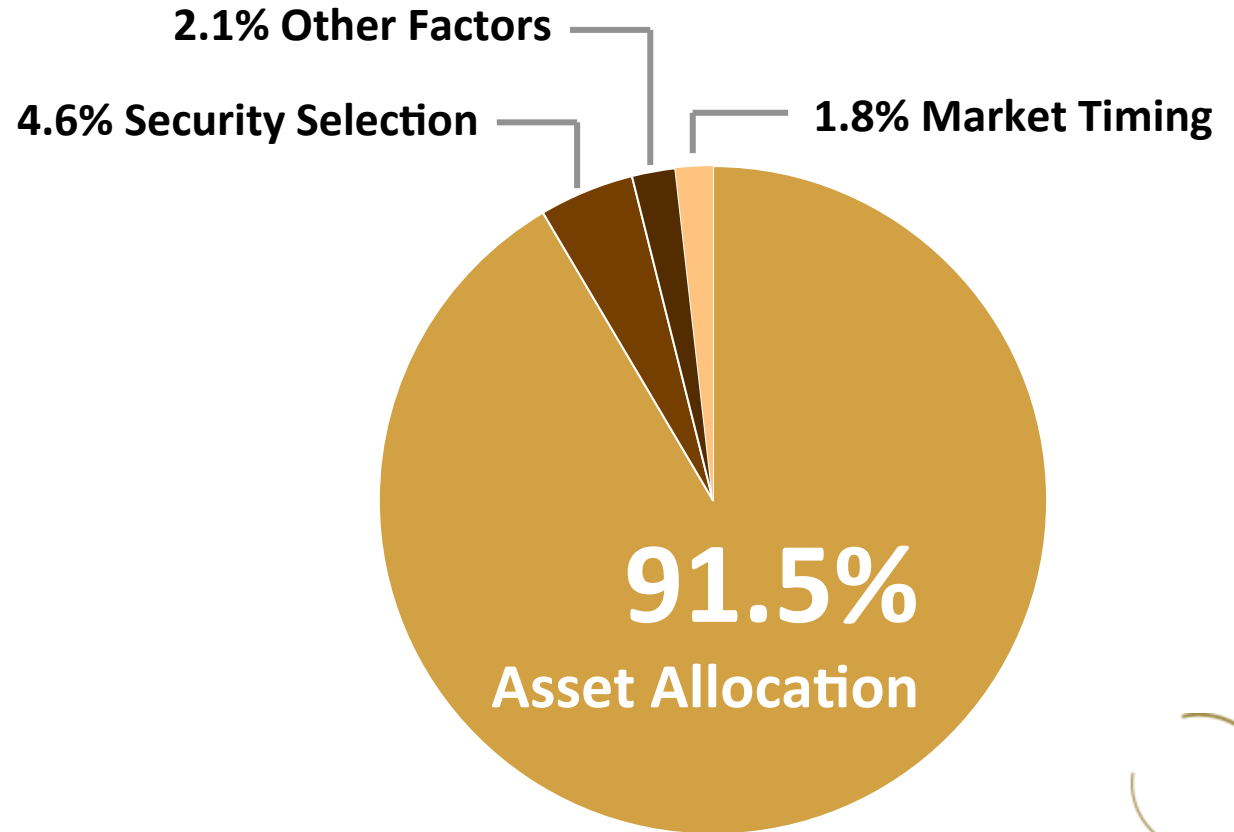
# From Here...

## Determinants of Portfolio Performance

Source:  
*“Determinants of  
Portfolio  
Performance II: An  
Update,”*

By Gary P. Brinson,  
Brian D. Singer &  
Gilbert L. Beebower,

*Financial Analysts  
Journal,*  
May – June, 2001



*Financial Analysts Journal, March/April 2010, Volume 66. “The Importance of Asset Allocation.” ©2010 CFA Institute*

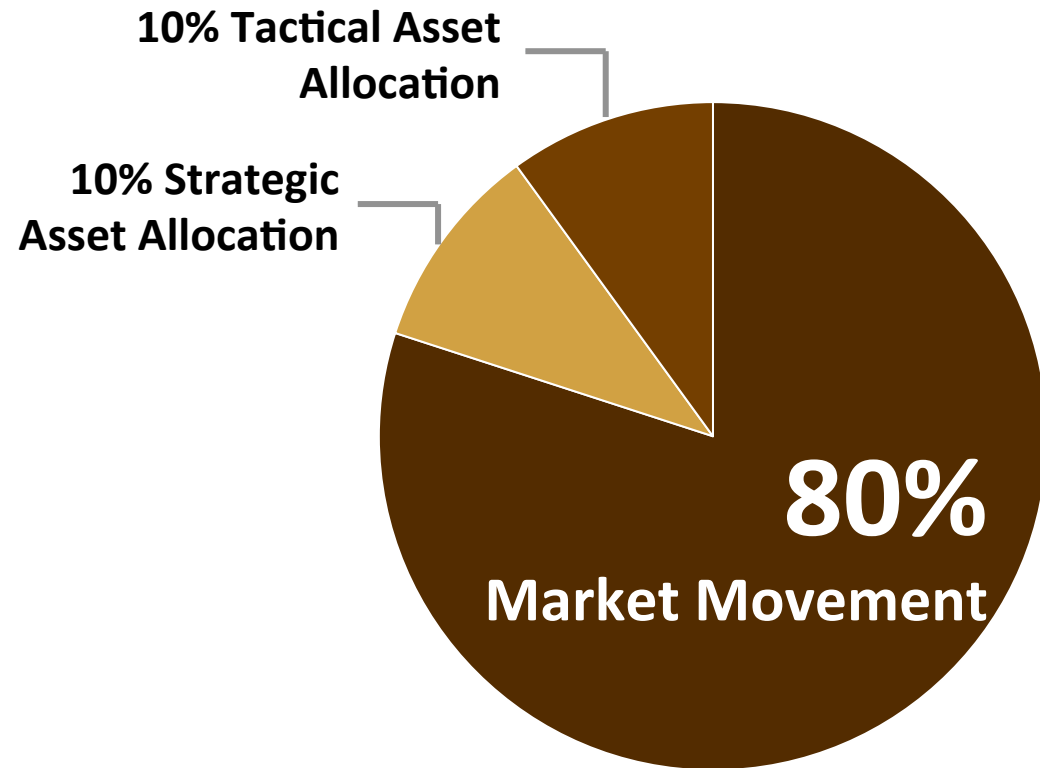
# ...to Here

Research Emphasizes the importance of market movement on the variance of portfolio returns

**“The time has come for folklore to be replaced with reality. Asset allocation is very important, but nowhere near 90 percent of the variation in returns is caused by the specific allocation mix... most time-series variation comes from general market movement...”**

**Roger Ibbotson**

*Financial Analysts Journal, March/April 2010, Volume 66. “The Importance of Asset Allocation.” ©2010 CFA Institute*



*Financial Analysts Journal, March/April 2010, Volume 66. “The Importance of Asset Allocation.” ©2010 CFA Institute*

# Determining How Much Market Movement Drives Performance

*As of 12/31/2014*

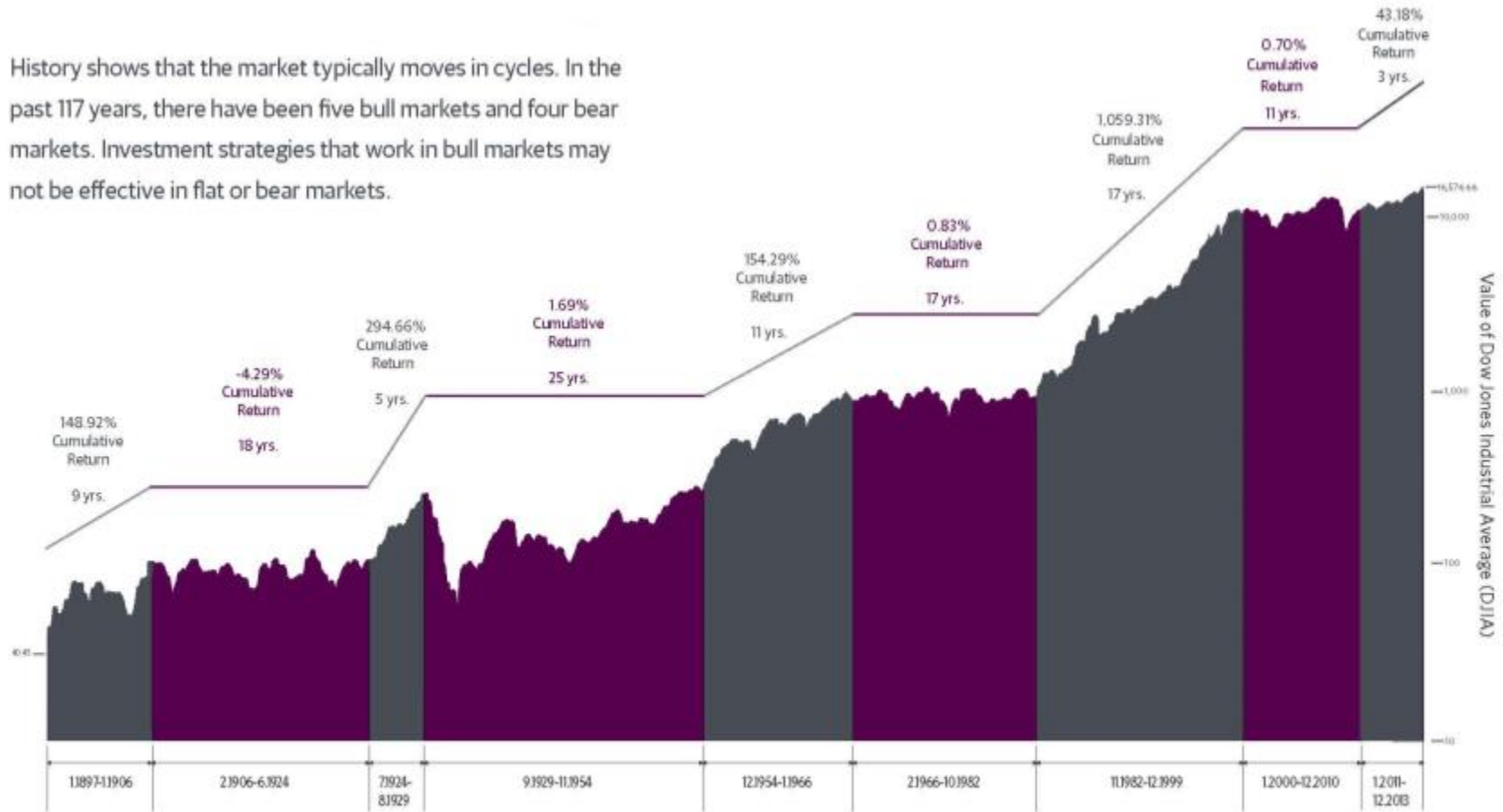
## LITMAN/GREGORY Tactical Strategy

Actual Models 1/1/1990 – 12-31-2014	Conservative Balanced	Balanced	Equity-Tilted Balanced	Equity Portfolio
Annualized Trailing Returns				
5-Year	6.73%	7.99%	9.00%	10.48%
20-Year	7.78%	7.81%	8.16%	8.33%

As published in No-load Fund Analyst

# Secular Market Movement

History shows that the market typically moves in cycles. In the past 117 years, there have been five bull markets and four bear markets. Investment strategies that work in bull markets may not be effective in flat or bear markets.



Source: Graph created by Guggenheim Investments using data from dowjones.com. Cumulative returns are calculated by Guggenheim Investments. Logarithmic graph of the Dow Jones Industrial Average from 1897 through 12.2013.

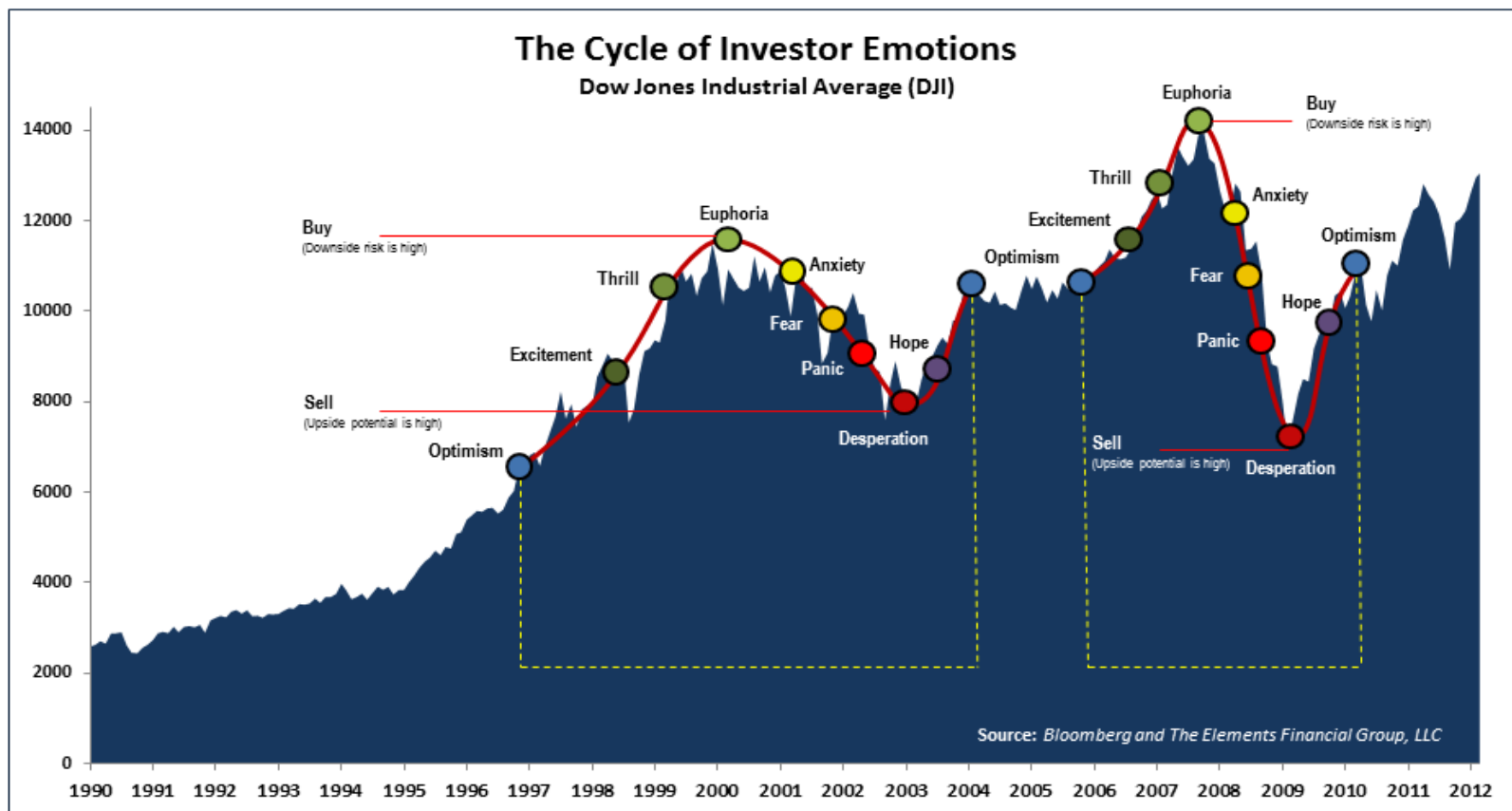
**Performance displayed represents past performance, which is no guarantee of future results.** For more information call 800.345.7999 or visit [guggenheiminvestments.com](http://guggenheiminvestments.com).

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# The Impact Of Market Movement On Investor Behavior

*"In investing, what is comfortable is rarely profitable."*

*- Robert Arnott, Chairman, Founder of Research Affiliates*



## Something new

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**“Alpha and beta separation is the new investment foundation, and traditional managers have been at the losing end.”**

**- Patrick Quirk**

***Pension and Investments Magazine June 2014***

# Evolution in Diversification

## Mandate 1: Market Movement - Strategic

Strategists in this mandate are passive and stay fully invested in all market conditions.

Key Characteristics:

- **Source of risk/return:** Dependent on market direction, less reliance on manager skill
- **Role in portfolio:** Capture and fully participate in market returns; long-term growth, effectively manage longevity and inflation risks.



## Mandate 2: Tactical Market Movement

Strategists in this mandate are highly flexible and able to adjust for changing market conditions. Their active approach allows them to increase/decrease their exposure to market movement as their research dictates. Key Characteristics:

- **Source of risk/return:** Increasingly dependent on active manager decisions; variable market exposure
- **Role in portfolio:** Moderate/flexible allocation designed to actively manage risk while opportunistically allocating to attractive asset classes



## Mandate 3: Market Movement Diversifiers

Strategists in this mandate are designed to disengage from market movement and provide new sources of potential return and risk. They tend to exhibit low correlation to the other mandates. Key Characteristics:

- **Source of risk/return:** Very active strategies that are heavily reliant on manager skill; use wider spectrum of asset classes and approaches; very little dependence on market direction.
- **Role in portfolio:** Counterbalance to Mandate 1; focus on risk, then return, enhance diversification and protection; improve overall risk management of portfolio.





# Multi-strategist Portfolio Process

## **M1: Market Movement Mandate (Core-Strategic)**

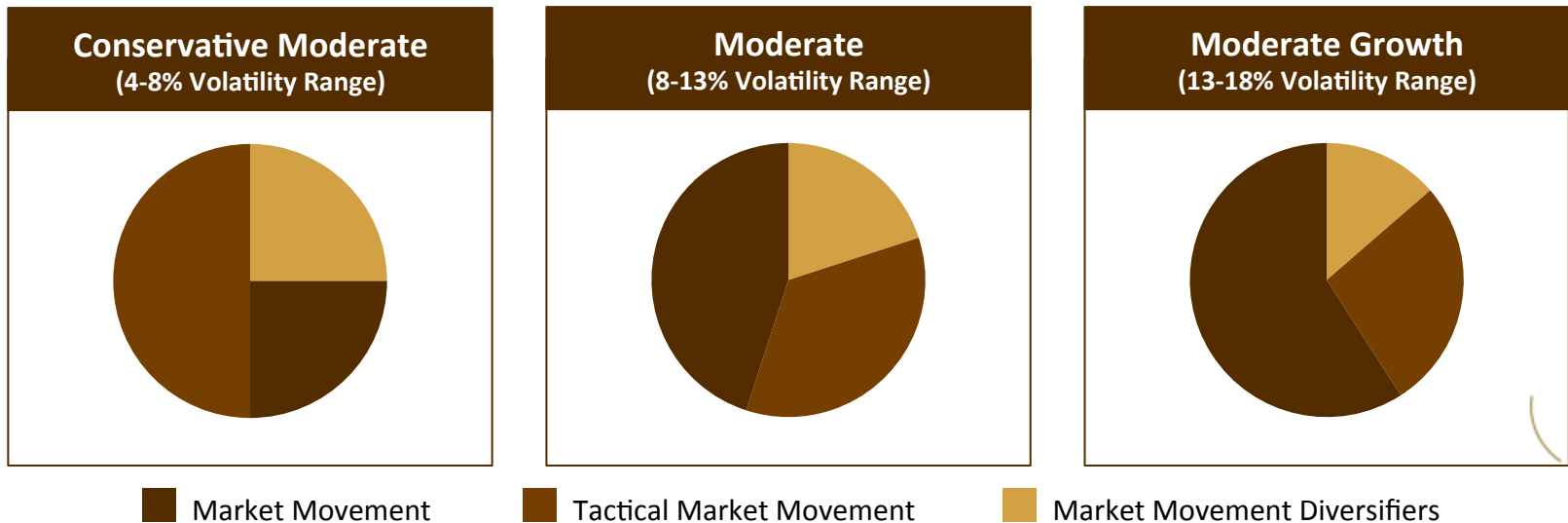
Providing the *GROWTH* (beta) portion of the portfolio

## **M2: Tactical Market Movement Mandate (Flexible)**

Providing the *MODERATE* portion of the portfolio

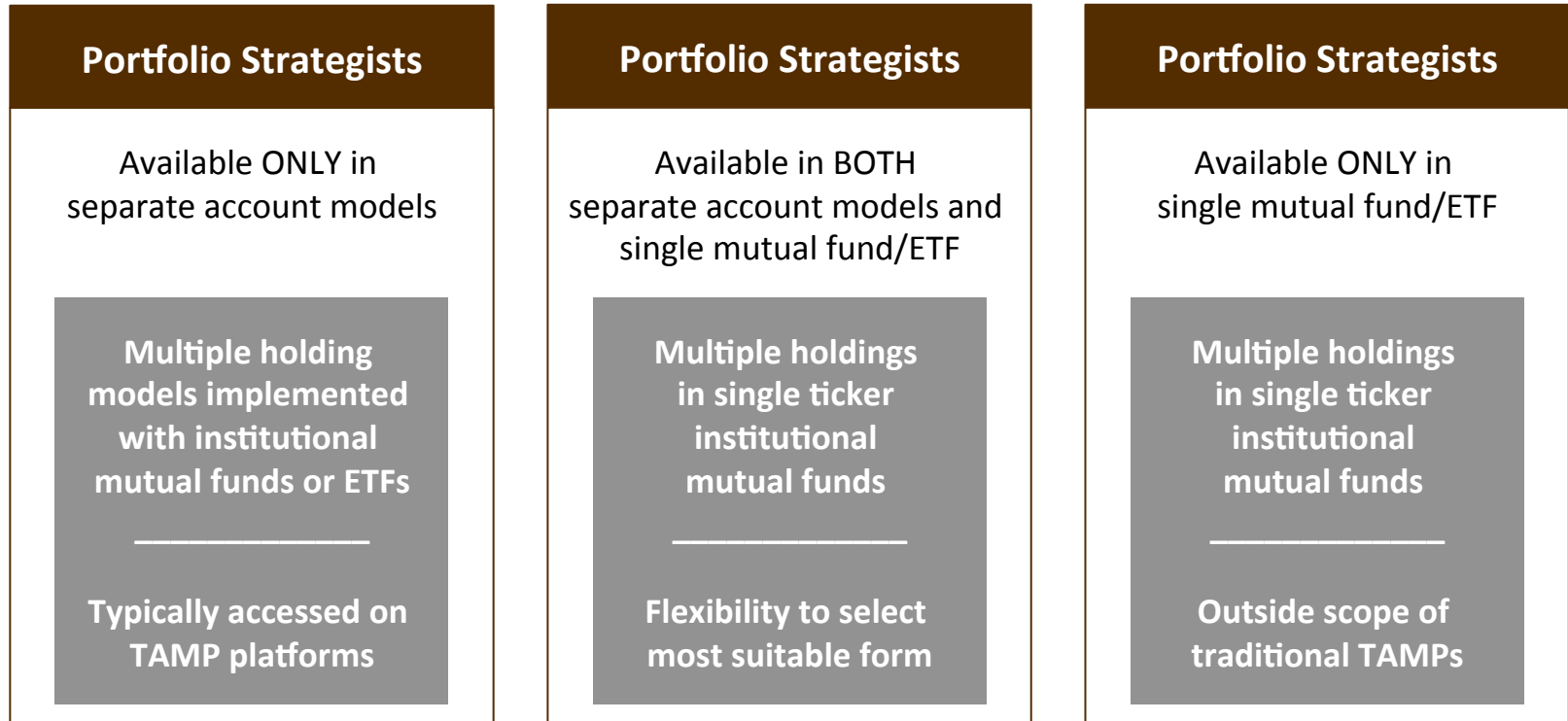
## **M3: Market Movement Diversifiers Mandate (Alternatives)**

Providing the *CONSERVATIVE* portion of the portfolio



# A Hybrid Approach To Strategist Selection

Our unconstrained approach to strategist selection emphasizes *substance over form*



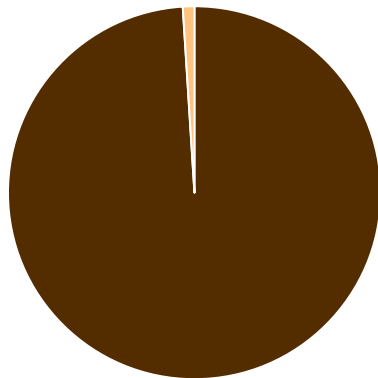
← **Our due diligence expands beyond the restraints of traditional TAMPs** →

TAMP = Turnkey Asset Management Provider

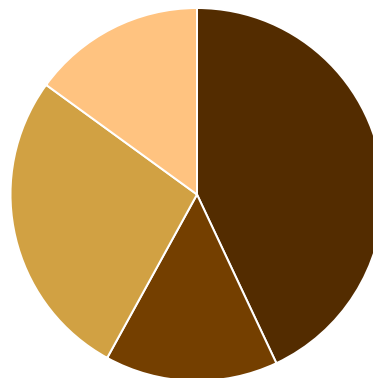
# Determining How Much Market Movement Drives Performance

## The Influence of Market Movement on our three mandates

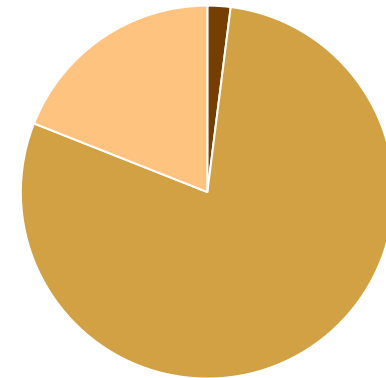
Market Movement Strategy



Tactical Market Movement Strategy



Market Movement Diversifier Strategy



■ Market Movement   ■ Policy   ■ Active   ■ Other Factors

**Accurately segmenting strategists based on the degree to which they rely, or don't rely, on Market Movement**

# A Framework for Investing in Diversifiers

	Absolute Return	Macro	Opportunistic
<b>Role in Portfolio</b>	Hedge equity/fixed income risk	Hedge macro environmental and equity risk	Hedge equity risk
<b>Liquid Alternative Strategies</b>	<ul style="list-style-type: none"> <li>Relative value</li> <li>Market neutral</li> <li>Fixed income arbitrage</li> </ul>	<ul style="list-style-type: none"> <li>Global macro</li> <li>Managed futures/CTA</li> <li>Multi-strategy</li> </ul>	<ul style="list-style-type: none"> <li>Long/short</li> <li>Event driven</li> <li>Non-fixed income arbitrage</li> <li>Distressed</li> </ul>
<b>Directionality*</b>	Low: 0 to 20% market exposure	Medium: varies based on manager insights	High: > 60% exposure to market environments
<b>Expected Long-term Risk</b>	= Fixed income risk	= Fixed income risk	< Equity risk
<b>Typical Allocation Bucket</b>	Absolute return	Absolute return	Equity or absolute return

## Aligning Investor Goals with Liquid Alternatives

<b>Role in Portfolio</b>	<ul style="list-style-type: none"> <li>Risk diversifiers</li> <li>Return enhancers</li> </ul>	<ul style="list-style-type: none"> <li>Risk diversifiers</li> <li>Return enhancers</li> </ul>	<ul style="list-style-type: none"> <li>Risk diversifiers</li> <li>Return enhancers</li> </ul>
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<b>Expected Long-term Total Return</b>	> Fixed income yields	60% equity/ 40% fixed income	Equity plus

\* Directionality measures the degree of exposure a strategy has to movements in the equity and fixed income markets.

Source: *Invesco, April 2014*. For illustrative purposes only.

# Thank You

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