Crisis Alpha Delivery: Diversifying Risk Using Alternative Investment Strategies

Speakers:
Jon L. Stein, CEO of Kettera Strategies
Jagdeesh Prakasam, Co-Chief Investment Officer of Rotella Capital Management
James Green, CEO of Rosetta Capital Management
Thomas Rollinger, Chief Investment Officer of Red Rock Capital

"What makes money when bad things happen?" asked Jon L. Stein, CEO of Kettera Strategies, at the beginning of the panel discussion titled "Crisis Alpha Delivery: Diversifying Risk Using Alternative Investment Strategies" that was held on October 22nd at the 2015 World Knowledge Forum. Panelists explored this question during their discussion and suggested that some form of tactical strategy can hedge an investor's bets during a crisis period.

Although such a role has normally been performed by hedge funds, having them play this part may not actually be appropriate. "Despite their name," said Mr. Stein, "too often there is no 'hedge' in hedge funds." Nor does he see the hedge in using G10 Fixed Income Securities (U.S. Treasury), the short-selling of stocks, and Various Volatility ETFs/ETNs, all of which are to provide financial stability during volatile times. Although many turn to such investment strategies during times of financial crisis, these strategies have not actually achieved those goals. Accordingly, Mr. Stein suggested that tactical strategies which "recognize that alpha can be extracted from the long or short side of a diverse set of markets sectors" have a better chance of performing successfully during times of crisis.

Panelists suggested that going with a small or medium-sized manager is a better option than using a larger one because smaller investment companies are often better positioned to avoid the "concentration risks" associated with some of the larger portfolio managers. One panelist, James Green, CEO of Rosetta Capital Management, presented an extremely concentrated approach for tactical strategy. He manages investments exclusively in corn, soybeans, live cattle, and hogs. This is because his deep lifetime experience with these commodities has enabled him to apply the knowledge he has accrued to provide investors with solutions. "All of a sudden, because of crisis alpha, people are looking for a place to diversify part of their portfolio in case of uncertain times and market corrections," he remarked.

The two remaining panelists presented a larger range of options with their investment suggestions. Theirs was a systematic, model-based, tactical approach, a methodology which provides a variety of options for diversity and enables flexibility.

Jagdeesh Prakasam, Co-Chief Investment Officer of Rotella Capital Management, supported the idea that crisis alpha strategies do well. For example, when the S&P 500 or KOSPI is down, crisis alpha strategies are up. He explained that this was because "any time there is a crisis in the equity markets, what tends to happen is the allocations go towards highly liquid strategies. They want transparency and a low-downside correlation to stocks and bonds." Accordingly, the tactical investment strategies he presented match these hopes.

The final panelist, Thomas Rollinger, Chief Investment Officer of Red Rock Capital LLC, made a similar suggestion. He illustrated the way true diversification is needed during times of crisis by comparing the performance of Goldman Sachs, the best-known commodity index, with the portfolio he suggested. Mr. Rollinger was better able to achieve diversification than Goldman Sachs and consequently showed that when Goldman Sachs' values fell during the credit crisis (September 2007 to February 2009), his investment portfolio rose. This was due to the diversity of the portfolio he created. "A savvy investor, or somebody who is trying to become more savvy and diversify a portfolio...wants some things that zig when stocks and bonds zag," said Mr. Rollinger.