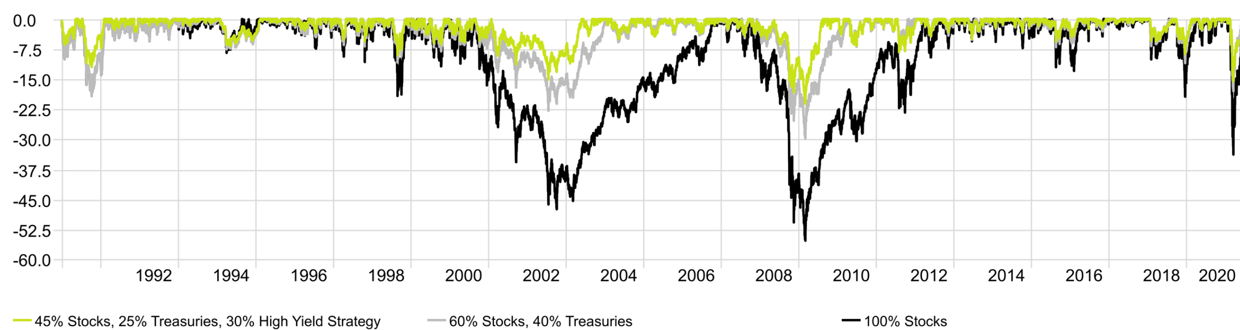
Don't Fall off a Cliff Chasing High Yield

Investors need to understand how their strategies can handle market downturns, especially when market prices are rising despite bearish economic evidence. Tactical high yield investment strategies have historically excelled at reducing drawdowns – the declines from an investment's most recent highs to its most recent lows. This risk management approach is valuable because it can reduce client – advisor friction and may allow investors to capitalize on opportunities in times of market stress.

Portfolio drawdowns can strain investor - client relationships. They're a source of hasty emotional decisions that can derail any strategy. Troubled by declines in portfolio value, investors are tempted to abandon their strategies and sell at exactly the wrong time. Tactical trend following in high yield seeks to mitigate drawdowns by using a systematic, quantitative risk signal. Historically, this system has helped investors avoid severe portfolio drawdowns.

Drawdown of a Traditional 60-40 vs. 45-25-30 with High Yield Strategy



Displayed above are scenarios using the S&P 500 Total Return Index to represent "Stocks," the Bloomberg Barclays US Treasury 7-10 Year Index to represent "Treasuries," and a High Yield Strategy in various combinations. The High Yield Strategy is defined by buying the Morningstar High Yield Category when it closes above its 200-day moving average the prior day. The strategy entirely switches to exposure of the ICE BofAML 3-5 Year Treasury Index when the Morningstar High Yield Category closes below its 200-day moving average.

Many advisors encourage clients to remain invested, or invest more, during market downturns so they can attempt to capitalize when assets become cheap on a fundamental basis. Tactical strategies provide flexibility and seek to be more opportunistic when time comes to rebalance. By following "risk off" signals and investing in lower-volatility assets like cash and short-term Treasuries, tactical income strategies may help preserve capital amid broad market declines. This capital preservation mission helps investors avoid emotional decisions and take advantage when buying opportunities arise.

Tactical high yield strategies have the ability to offer strong risk-adjusted returns, and historically have been effective in managing risk when markets appear disconnected from economic reality. By targeting avoidance of emotionally draining drawdowns and enabling advisors to act opportunistically, tactical high yield strategies may help optimize investment portfolios for potential market downturns.

Important Risk Information

Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. The Adviser's reliance on its strategy and judgments about the attractiveness, value and potential appreciation of particular securities and the tactical allocation among investments may prove to be incorrect and may not produce the desired results. Diversification does not assure a profit or protect against loss.

Index Definitions

The S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities and serves as and captures approximately 80% coverage of available US equity market capitalization. Fixed Income allocation is represented by the Bloomberg Barclays US Treasury 7-10 Year Index, which measures total return of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity.

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