SIERRA MUTUAL FUNDS | OCEAN PARK ASSET MANAGEMENT

Upturns, Downturns: When Does Outperformance Matter Most?

The Case for Tactical Asset Management

A Riddle:

You have a choice of 3 investment managers to manage your money. All are star managers who will, on average, produce 5% outperformance (alpha). In our simple example, there are two periods: **in the first period, the market return is -10%. In the second period, the market return is 20%.**

Q: Who would you choose to manage your money?

- **A: Manager A,** who produces **5% alpha** in down markets and **no alpha** in up markets.
- **B: Manager B,** who produces **no alpha** in down markets and **5% alpha** in up markets.
- **C: Manager C,** who produces **consistent alpha of 2.5%** in both up and down markets.
- **D: Any of the above** – they are all equal, as they produce 5% total alpha.

The Answer:

In this scenario, we would choose **Alpha Manager A**, who can produce alpha in down markets.

	MARKET RETURN	GROWTH OF $100	MANAGER A	GROWTH OF $100	MANAGER B	GROWTH OF $100	MANAGER C	GROWTH OF $100
		$100		$100		$100		$100
Period 1	-10%	$90	-5%	$95	-10%	$90	-7.5%	$92.5
Period 2	20%	$108	+20%	$114	+25%	$112.5	+22.5%	$113.31
Investment performance over two periods		**8.0%**		**14.0%**		**12.5%**		**13.3%**

Chart Synopsis:

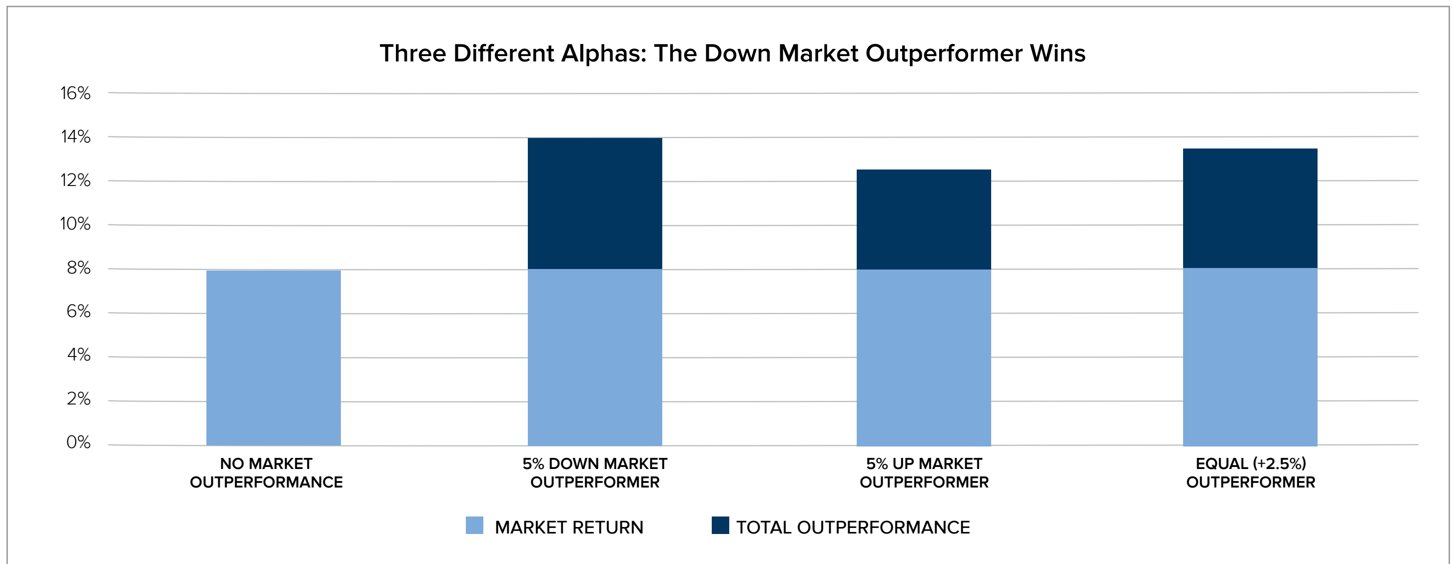
The market returned **8% over two periods**.

Manager A was able to produce a **14%** return over two periods by limiting losses during the market downturn.

Manager B produced 5% alpha, but only during the up-market period, and was only able to achieve **12.5%** return over two periods.

Manager C produced alpha consistently in each period and was able to produce a two-period return of **13.3%**.

In the end, the manager who was able to achieve 5% alpha in a down market won:



Executive Summary

If we could choose when to get outperformance, it would be in down markets. Limiting losses through smaller declines can be a powerful way to drive long-term success in an investment portfolio and may allow one to potentially recover from market drawdowns more quickly.

Our investment strategies have the flexibility to hold 100% cash if there are no upward trends in the market. When the market turns down, we can swiftly move to cash and attempt to avoid the potential for further declines. In effect, we aim to win by not losing.

Finding an investment manager that can produce alpha over a market cycle is great. Finding an investment manager that can produce alpha during market declines is even better.

This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security. Future performance cannot be guaranteed, and investment yields will fluctuate with market conditions.

Ryan Harder

Chief Investment Strategist

Ryan Harder, CFA®, is Chief Investment Strategist for Sierra Mutual Funds and Ocean Park Asset Management. He oversees research, trading, and portfolio management for the firm, and his career of more than 20 years includes roles as portfolio manager, equity research analyst and managing director. Ryan earned a BA in Economics, with honors, from Brock University in Ontario, Canada and a M.Sc. in International Securities, Investment and Banking from the ICMA Centre, University of Reading, in the United Kingdom. He is a CFA® Charterholder.

RISKS AND DISCLOSURES:

Past performance is not an indication of future results and there is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Sierra Mutual Funds. This and other information about the Funds is contained in their prospectuses and should be read carefully before investing. The prospectuses can be obtained by visiting sierramutualfunds.com or by calling toll free 1-866-738-4363 (1-866-RETI-FND).

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