

# Separating Myth from Reality

## Alternative Investments

While many investors equate alternative investments with sophisticated hedge funds and high-net-worth investors, the truth is that everyday investors now have access to an expanding range of alternative investments. Let's take a look at some of the more common myths surrounding alternatives.

### Myth 1

#### Alternative investments are only for institutional investors and the mega rich.

**Reality:** While alternative investments were once equated with hedge funds and high investment minimums, retail investors now have access to a wide range of alternative investments with competitive fee structures. On January 3, 2019, the Canadian Securities Administrators established a comprehensive regulatory framework. This gives Canadian retail investors access to a highly regulated range of alternative funds designed to enhance diversification and better manage volatility during periods of market stress.

### Myth 2

#### Alternative investments require long lock-up periods and are less liquid.

**Reality:** While less-liquid alternative investments, such as private equity and hedge funds, do still exist for institutional and high-net-worth investors, alternative mutual funds (including liquid alternatives) can be bought and sold daily – just like regular mutual funds. See our helpful chart below to understand the similarities and differences between mutual funds, liquid alternative funds, and hedge funds.

#### Comparing fund structures

	TRADITIONAL MUTUAL FUNDS & ETFS	LIQUID ALTERNATIVE FUNDS	HEDGE FUNDS
Target investors	Retail investors	Retail investors	Accredited investors
Offering document	Simplified Prospectus	Simplified Prospectus	Offering Memorandum
Minimum investment	Low	Low	High
Liquidity	Daily	Daily	Less liquid: redemption periods vary but are typically offered monthly

### Myth 3

#### Alternative investments employ risky, untested strategies.

**Reality:** Many alternative strategies have been successfully used for decades by endowments, foundations, and pension plans to improve diversification and deliver better risk-adjusted returns for their clients. Some alternative strategies are riskier than others and those that have extremely high or unlimited leverage capability have the potential to cause great losses. At Dynamic, our alternative funds have several risk controls in place which include leverage constraints.

When it comes to alternative investments, portfolio manager experience and a clear track record of performance are essential. From specialty and hedge funds for accredited investors to our new lineup of liquid alternative funds, Dynamic has a long history of delivering alternative solutions that advisors can use to construct better investment portfolios for their clients.



### Alternative investments should be added to a portfolio during downturns and periods of market stress.

**Reality:** Investors who want the long-term diversification benefits of an alternative strategy should consider a dedicated, target allocation to alternatives regardless of market environment. Work with your advisor to find the appropriate allocation to help meet your investment goals.



### Alternative investments exhibit more volatility than stocks and bonds.

**Reality:** Because they rely on alternative sources of returns – independent of traditional stock and bond markets – many alternative investments actually exhibit less volatility than traditional investments. When combined with traditional investments, alternative investments provide the potential for enhanced portfolio diversification, less volatility, and improved risk-adjusted returns.



### Alternative investments are too complex and difficult to understand.

**Reality:** Alternative investments cover a broad range of assets and strategies. While some alternative investments do use complex strategies that require extensive financial expertise to implement, there are a broad range of alternative investments that many investors will be readily familiar with, such as real estate investment trusts, infrastructure, and gold – all designed to deliver returns with a lower correlation to traditional stocks and bonds.

## For more information on Dynamic Active Alternative funds, contact your financial advisor.

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