As an investment manager, we speak with financial advisors on a daily basis. We recognize that amongst the many duties and goals that an advisor might have, the idea of 'optimal allocation strategy' for their clients is likely one of the most important. But what does that really mean? When we think about asset allocation generally, we think about the proper blend of positions which will achieve a particular risk/return goal: a client who is less risk averse may be tilted more toward equities, whether public or private, while a more risk averse client may be tilted toward fixed income and other lower volatility alternatives.

At Core Alternative, our strategies would fall into the more risk averse category as lower volatility alternatives. As our clients know, we founded Core Alt on **three key pillars: a balance between risk and return, diversification through non correlation, and consistency of results**. At the highest level, our flagship strategy is designed to participate in sustained bullish equity environments while constantly maintaining downside protection and should equity markets decline our portfolio is designed to minimize potential volatility. The inevitable question is: how do we achieve this? Quite simply we hold a basket of high quality stocks, and hedge utilizing a combination of options trading strategies that can profit from equity volatility. *The result is a balanced risk strategy, which maintains minimal correlations to stocks, bonds and other alts, and has produced solidly consistent results regardless of the prevailing market conditions.*

Now, a key component to understanding the strategy is knowing how we use options: they are a tool, one which can have many uses. Some advisors may think that options are inherently risky, that perhaps they are opaque assets or that they may move in unpredictable ways; but this is just not true. Options are derivatives which trade based on the underlying movements of another asset. In the case of our Core Alt strategy, we use options on the S&P 500 Index: a SPX put is designed to profit when the index declines, and an SPX call is designed to profit when the index goes up.

Another tenet in our use of options is that they are specifically meant to act as a ballast to our equities. A brief scenario may best explain this. Imagine a time like March 2020, when the stock market is roiling due to the uncertainty arising from the Covid-19 pandemic. During that month, the S&P 500 Index declined a total of -12.35% (after having been down significantly more, but rebounded quickly in the last week or so), while our stock portfolio declined by about -9.85%. Now, because we held a combination of options, including various puts which were designed to profit from these equity declines, our options actually added +13.99% during the month, which resulted in a total portfolio return of +4.05%, net of maximum fees. *This is one aspect of what our strategy is meant for: produce uncorrelated returns during equity volatility and act as a ballast (compliment) to a client's broader equities, just as many advisors view their fixed income as a buoy to their equities in the event of a market correction.*

The final piece to properly understand why our use of options is not considered risky has to do with the implementation of the strategy. You might ask, 'if the options added nearly 14% to the portfolio then there must have been a lot invested into the options and that could have easily cost you 14%!' Again, this is simply not true. At any given time, under normal market conditions, we have a total of 1-3% of the total portfolio allocated to options. Typically when we buy put options as protection, then **their maximum risk to the portfolio is the amount paid (their premium cost) say 1%**. But in a time like March 2020, that 1% of the portfolio may profit significantly. During that particular market correction the options profited mightily, increasing in value by between 15 and 20x, and adding the volatility buffer and non correlation benefits we needed. *Due to our constant allocation to these kinds of options trades, we are able to maintain consistent protection in a repeatable dynamic process.*

In summary, as fixed income yields have become negligible and the risk of rising equity/bond correlations and potential volatility abounds, we believe the Core Alternative strategy may be a useful tool for advisors looking to build targeted risk/return portfolios, especially as a substitute to fixed income strategies which may be nearing the end of a nearly 40 year bond bull market.

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