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Ignites Q&A

Lisa Cohen is the founder and CEO of Momentum Partners.

Q. Has the interest increased/decreased for alternative investment type mutual funds?

A. The arguable failure of simple diversification as the sole risk management tool has created a significant opportunity for products that use other mechanisms to control risk in clients' portfolios. That said, we've seen in some recent advisor surveys we've completed that advisors' love affair with hedge funds and private equity is over. However, I do think advisors have bought into the concept of a globally diversified portfolio of both asset classes and product structures. In order to implement that, advisors need more products that offer access to niche asset classes. Further, they also need different types of exposure to well-understood asset classes, such as equal-weighted index funds and inverse exchange-traded funds.

This crisis has proven that buy and hold is not a risk management tool for today's global market. We see some of the best opportunities right now for funds that are less correlated to core asset classes or that have some hedging characteristics. Taking a page from the institutional side of the business – global macro strategies, in which managers look at prices of all asset classes globally, are one of the more attractive approaches right now.

Tactical asset allocation (TAA) and absolute return approaches are also promising. With TAA, portfolio managers attempt to create extra value by taking advantage of certain marketplace situations – by overweighting certain asset categories while underweighting others. With absolute return, managers seek to achieve positive returns regardless of the general market direction. Target returns are often set to relative cash or inflation rates, and long and short positions are put on and off to achieve the larger investment goal. Anything that takes risk off the table is an opportunity in this market.

There is a risk inherent in some of these new products – and concerns exist over whether investors completely understand how these products perform in all market environments. We're seeing heavy trading in ETFs and indications that advisors are increasingly turning to indexing. If you're selling leveraged ETFs for example, you want to be sure your advisors know how "not to get hurt" as well as how to use them to grow client assets. Firms have to have the appetite for the costs and complexities involved in rolling out such products to advisors and retail investors.