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3 Alternative Investing Strategies to Watch

Tom Florence, 361 Capital CEO, thinks multi-strategy alternatives could be the first alt strategy used in the defined contribution market

By Emily Zulz

There are three alternative strategies where Tom Florence, president and CEO of 361 Capital, sees a lot of interest growing among investors and their advisors.

Since its founding in 2001, 361 Capital has focused exclusively on alternative investments. In 2009, when Florence bought a controlling interest in 361 Capital, he helped transform the company into an "alternatives mutual fund company."

The firm's strategy evolved away from hedge funds and LPs to focus exclusively on creating liquid alternative investment solutions. The firm now offers five single-manager alternative mutual funds, including managed futures, global counter-trend, long/short equity, and macro mutual funds.

At the end of March, the firm launched its fifth mutual fund.

The Denver-based firm now has roughly $1.3 billion in assets under management and works with more than 1,000 investment advisory teams.

"What we've put together and will continue to grow is an interesting collection of alternative mutual funds that appropriately fit within an advisor's portfolio, where they're looking for things like lower correlation to the equity markets, better diversification, things like that, better risk return characteristics," Florence told ThinkAdvisor.

Dan Cascarano, vice president of national accounts and institutional sales at 361 Capital, told ThinkAdvisor that he sees the trend into liquid alternatives by various institutional allocators is "in early innings."

"You've see in the liquid alternative space, the sort of growth in the space over the last five years, has resulted in higher quality managers and a collapse in the performance gap between more restrictive vehicles and daily liquidity vehicles," Cascarano said. "It's starting to make a lot more sense for these entities to think about allocating."

During a visit to ThinkAdvisor's office, Florence discussed three areas in the alternatives space where he sees growth and opportunity.

LONG-SHORT EQUITY

Long-short equity is a category that Florence admits

he's "very excited about."

The firm launched a domestic long-short equity fund at the end of March. 361 Capital also has a global long-short equity fund that's more than two years old.

"We think that long-short equity for a lot of reasons has the opportunity to really expand and grow in all sorts of investors' portfolios – be it individual investors, be it advisor portfolios managing the money on behalf of the individuals, or institutions," Florence told ThinkAdvisor.

As Florence explains it, 361 Capital's global long-short equity fund aims to provide "roughly half the exposure" to the MSCI World Index.

While people have largely kept their alternative investments in a separate bucket from their equity and fixed income buckets, Florence sees this changing.

"What we see happening is, long-short equity in particular, beginning to creep into the equity bucket or you could look at it core overall, which would be your combination of equity and fixed," he explained. "Because it's beta exposure, so if you put it in your alternative bucket, you're really just absorbing more beta exposure. "

In the March issue of Investment Advisor magazine, 361 Capital's chief investment officer, Cliff Stanton, makes the case that long-short equity could be the new core allocation – replacing a large portion of the traditional stock-and-bond core.

"We [think] you should include that in your core equity bucket – not just push it off into the alternative space," Florence told ThinkAdvisor. "We think that as more people begin to think that way, and I think they are, you're going to see greater expansion of long-short equity overall."

MANAGED FUTURES

As more advisors and their clients are being educated in the alternative space, Florence says that "certainly managed futures will draw more assets as they become more knowledgeable of the strategy."

"It's probably the first strategy people look at when you think of an alternative mutual fund and its correlation to the market because it's just about zero in most cases," he told ThinkAdvisor. "It gets a lot of attention from that perspective."

The challenge with managed futures, according to Florence, is "you have to perform."

"There's a lot of dispersion in not just managed futures or long-short equity," he said. "There's a lot of dispersion amongst managers, some have done very well and some have not over reasonably long periods of time."

361 Capital uses a unique approach to managed futures – using counter-trend following strategies in its managed futures funds.

Trend following, which is the most common trading system employed by managed futures funds, aims to invest in the direction of the long-term trend of commodities, interest rates, exchange rates or equities.

Meanwhile, the majority of counter-trend models look to sell short-term overbought levels and buy short-term oversold levels. According to 361 Capital, this behavior allows counter-trend models to thrive in volatile markets and to react quickly to market turning points.

"In the end, whether it's trend following or counter-trend, you're getting something that's low correlation to the broad markets that does provide that diversification that one looks for when investing in alternatives," Florence said.

MULTI-STRATEGY

Today, and for the past few years, Florence sees a lot of money go into multi-strategy, known as "multi-strat" or as Morningstar calls it "multi-alternative."

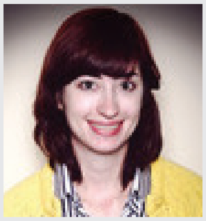
"That's sort of the one-fund-fits-all," he told ThinkAdvisor. "So if you're an investor and you want to allocate to alternatives and you're not really sure which one I should invest to, it's all encompassing."

Multi-strat alternatives fit the need of a lot of investors or their advisors, according to Florence.

It's also a strategy that he thinks could eventually expand into the defined contribution market.

"If you're going to look to add alternatives to the DC market, it's probably going to be the [multi-strategy]," he said. "Because of its diversification, that's going to be the first one to be put on defined contribution platforms."

ABOUT THE AUTHOR



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