

APCM's 2022 Market Outlook: Opportunities in Mid-Cycle Investing

In part 1 of my 3-part blog series, I highlighted [5 Key Takeaways from our 2022 Outlook](#) which summarized our preference for equities and alternative assets over fixed income in light of our expectations for higher interest rates and in [part 2](#) I elaborated on a couple of areas within the equity markets we find most attractive. *Today, I'll explain how we plan to take advantage of market opportunities in 2022 given our expectation for higher market volatility and a challenging backdrop for fixed income.*



Opportunity in Market Volatility with Alt Beta Funds

Volatility in the stock market leads to fluctuations in stock prices. This volatility has picked-up as global central bankers move to normalize policy and inflation pressures linger. We expect contributors to this inflation such as supply chain issues and tight labor markets to gradually ease throughout the year, and significant downside risk is unlikely if the Federal Reserve can successfully ease this inflation. **It is important to remember that this market volatility can be a source of opportunity to help us achieve financial goals.**

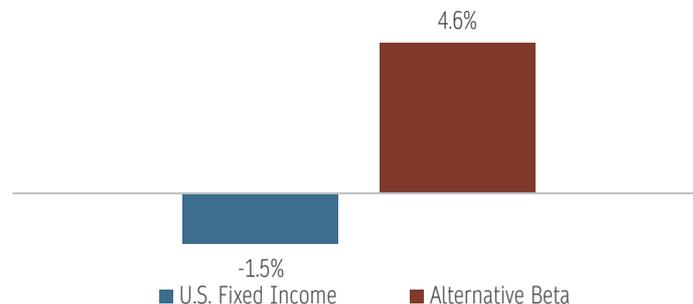
At APCM, we seek to diversify our equity overweight and increase relative returns during times of market volatility by taking advantage of alternative beta (alt beta) funds. These funds behave differently than traditional stocks or bonds and are low volatility by design. APCM further enhances these characteristics by using a target mix of alt beta funds. **Alt beta funds therefore enable us to control risk with fewer challenges currently impacting fixed income returns.**

Alt beta provides a unique return and risk profile as these strategies make it possible to take positions between multiple asset classes to deliver positive future returns even in environments with high market volatility.

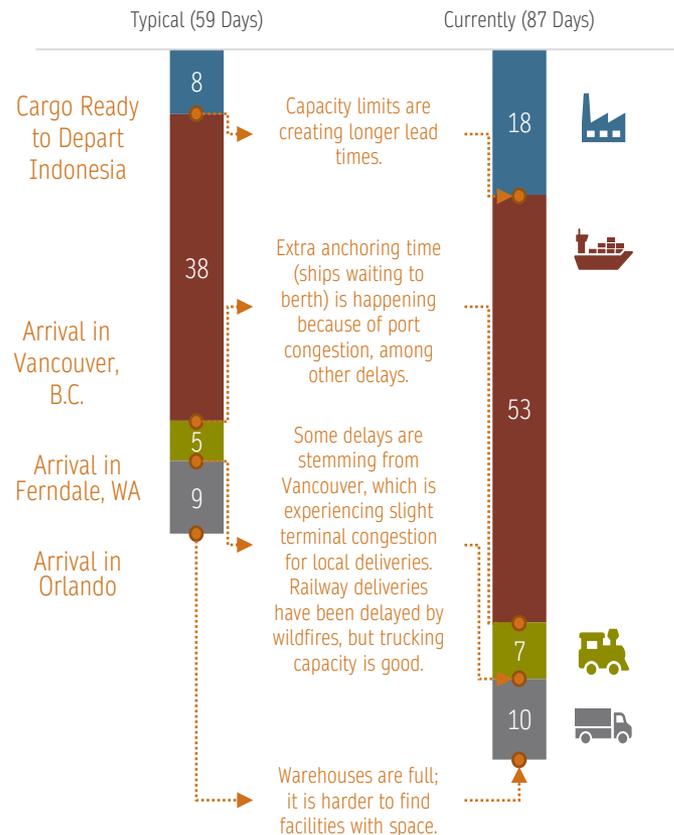
Properly mixed alt beta funds have relatively low volatility, and the return drivers are different from bonds or stocks. These different return drivers make it possible for alt beta to provide positive returns even if both stocks and bonds turn negative for the year.

Alt beta's low volatility makes it a compelling asset to **control risk in portfolios in a year in which we expect volatility to be higher for both stocks and bonds**, global monetary policy to shift, and the potential for both stock and bond returns to be negative. Positive expected return from alt beta funds is just the icing on the cake.

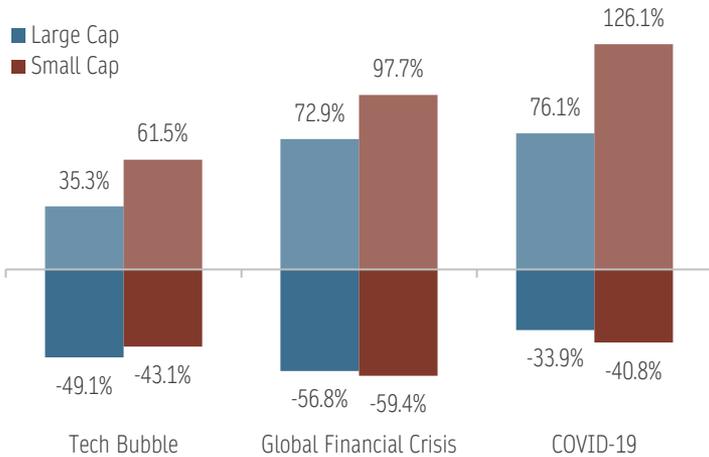
Unique Sources of Return Provide Diversification
Calendar Year 2021



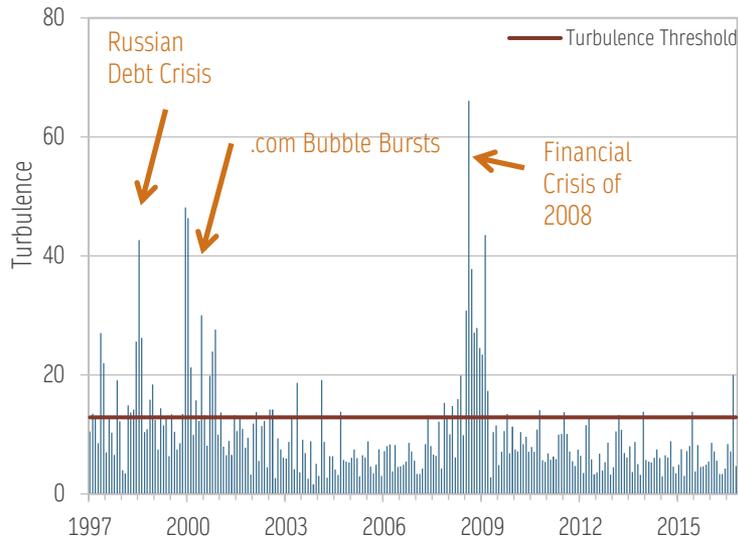
Supply Chain Improvements Will Ease Inflation
(Example Route)



Historical Recoveries have Outpaced Drawdown Price Return (%)



Turbulent Risk Analysis is Integral to APCM's Portfolio Construction Process



Measuring Risk and Recognizing Opportunity

It is very possible for you to achieve investment success with skillful portfolio construction and appropriate risk management during challenging market environments. Investors often think about risk in terms of fluctuations in returns, but at APCM we believe risk should be perceived differently. **It is important for investors to accept some level of short-term fluctuations in returns in order to make it possible for them to achieve their long-term desired returns.**

Most investors' goals include accumulating sufficient wealth for some specific purpose in the future. At APCM, we use simulation analysis to measure possible investment risk and opportunities and compare our investors' financial goals with distributions of potential wealth and/or income. **Incorporating only fluctuations in returns into this analysis provides an incomplete picture, as these fluctuations in returns do not distinguish between things that will have a long-term impact on achieving financial goals and those that will not.**

With that said, short-term fluctuations in investment returns are inevitable and sometimes even present desirable opportunities to make additional investments at a low price. Experiencing a large drawdown may not feel easy to endure in the moment, but after thoughtful portfolio construction and analysis these fluctuations should not impact the ability to achieve your financial goals in the future. **Our simulation analysis shows that it is important to avoid making large changes to your portfolio when the stock market is down, as this can actually have a large long-term negative impact on wealth accumulation.**

If your financial goals haven't changed, making the conscious decision to remain invested despite the current market volatility is a prudent choice. If your financial goals have changed, reach out to your advisor so we can help you make the best choices for your overall portfolio allocation. If you want to learn more about alt beta funds, feel free to reach out to your advisor as well.

The bottom line to remember here is that market volatility can also be a source of opportunity!