

# The long and short of alternative investment strategies



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**FINANCIAL SENSE**

There is a traditional way to make money in the stock market – invest in a company's stock and hope to generate profits as the stock rises in value.

This is referred to as a "long" investment and involves investing in a security with the expectation that the price will increase over time. But that is only one way to make money in the markets.

Some investors also take advantage of profit opportunities created when the value of a stock decreases, which is called a "short" strategy. For example, an investor who borrows shares of stock from a broker and sells

them on the open market is said to have a short position in the stock.

The investor must eventually return the borrowed stock by buying it back from the open market. If the stock falls in price, the investor buys it for less than he or she sold it, thus making a profit.

In today's marketplace, many investors are discovering the potential benefits of combining both long and short strategies in the same portfolio. This is one of the more popular "alternative investment" approaches now available to investors.

#### COMBINING THE STRATEGIES

A number of investments known as hedge funds incorporate a combined long/short strategy. The key benefit of this approach is to create more opportunity to outperform the market in a given period of time while also managing risk.

In its most basic form, the long/short approach works this way. A manager invests 100 percent of a fund's assets in long positions, buying securities

intended to generate a positive return. The manager also generally constructs a short portfolio. As is common for this strategy, securities are borrowed, then sold, on the assumption that the value of these positions will decline in the weeks and months to come, generating the potential for profit.

By selling securities, the fund now has more assets available to invest in additional long positions. For example, the fund's long and short position may break down in this way:

- Long positions (using fund assets): 100 percent.
- Short positions (borrowed securities sold): -30 percent.
- Additional long positions (funded by proceeds from short sales): 30 percent.
- Net investment: 100 percent.

While the total long position adds up to 130 percent of the money invested in the fund, 30 percent of the value is subtracted because it represents short positions that are sold, resulting in a net investment of 100 percent of the fund in a mix of 130

percent long positions and 30 percent short positions.

#### THE POTENTIAL UPSIDE

Some managers appreciate having the ability to use a long/short strategy. Their research will help them choose positions that appear to offer attractive returns. But they also may identify stocks (or segments of the market) that may be at risk of losing value in the near term. Adding the ability to generate profits with short positions in these types of securities has the potential to enhance the fund's return.

In addition, the manager is leveraging the assets in the portfolio. By shorting some positions, more money becomes available that can be used to add to the favored long positions in the portfolio. If those stocks perform well, it can boost the fund's return beyond what was possible using only the original assets invested in the fund.

More profits are also generated if the short positions pan out and those stocks lose money.

Another attraction of the long/short approach is the ability it gives a skilled manager to mitigate investment risk. The manager can take short positions in investments he or she believes are susceptible to a temporary downturn, to help offset the potential impact of a negative market on the portfolio.

Another benefit is that long/short funds historically have had a low correlation with stocks and bonds, meaning that they provide some diversification for a portfolio invested in more traditional segments of the market.

A properly managed long/short strategy has the potential to generate attractive returns, but it is not a sure thing. For starters, short selling stocks presumes the stock will lose money in the future. This is essentially a short-term play, and the stock market can be very unpredictable on a short-term basis.

In addition, using the proceeds from shorting a stock to purchasing more long positions is, in essence, leveraging the investment. If the short or long position, or both, lose money for the investor, the negative impact can be more dramatic than if the fund just purchased long positions using no leverage.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus, which contains this and other important information, contact your financial advisor. Read the prospectus carefully before you invest.

Investment products, including shares of mutual funds, are not federally or FDIC-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

Long/short funds have typically a high turnover strategy, which could increase transaction costs and cause short-term capital gains to be realized.

Diversification does not assure a profit or protect against loss. Alternative investments involve substantial risks, may be more volatile than traditional investments and are typically only suitable for investors with an above average risk tolerance.

Short selling is a high-risk strategy that involves selling a security not owned in anticipation that the price of the security will decline. If unanticipated market movements occur, losses may be substantial.

*Mureleen Benton is a Certified Financial Planner. Call her with questions at 685-4523*

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## Clayton Sports

### Basketball player scores at UC Davis



Photo by Wayne Tilcock, The Davis Enterprise  
**RYAN SILVA** wearing his number 5, pushes the boundaries against La Verne.

**ANDRÉ GENSBURGER**  
*Clayton Pioneer*

Clayton resident Ryan Silva, a 2007 graduate of De La Salle High School, became a "walk-on" star with the UC Davis men's basketball team this season.

Coming off the 2006 state basketball championship, Silva

used his experiences as a freshman in a backup guard role to surprise everyone with lightning fast moves and determined play. He averaged 15 points at De La Salle last season, and his teams were 83-10 in three seasons.

"I learned how to be determined," Silva said, "and I got the mindset of winning from my high school coach, who

taught me that every time I step on the court that there is always something to prove."

"From an early age, I saw a great potential in Ryan's basketball abilities," said his father, Dave. "His shooting and defense skills greatly improved to where they impressed quite a lot of college basketball coaches."

During a 14-minute play against La Verne, UCD coach Gary Stewart said Ryan was "disruptive on both ends of

the court."

"My walk-on role hasn't shaped my play any differently. I play the same way I would have in the rec center," Ryan said.

"The most difficult part of the game is to be consistent with playing hard and being competitive," he added.

"In the UC Davis versus Nicholls State game (69-67), Ryan scored 16 points and was second behind starting guard Vince Oliver, who had 19," his dad reported.



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