Correlation Misconception

Do your clients understand correlation? Even some high-net-worth clients confuse negative correlation with low (or non-) correlation. They mistakenly believe that returns for investments with low correlation move in opposite directions from each other.

CORRELATION AT ITS CORE.

Correlation is a statistical measure of the historical price relationship of two securities (or asset classes). This relationship, expressed by what is known as the correlation coefficient, is represented by a value range of -1.00 and +1.00.

A positive correlation of +1.00 indicates that two securities moved in the same direction at all times. As security "A" gained in value, security "B" gained as well.

A correlation of 0 indicates that the price movements are totally random. A gain by security "A" had no directional relationship with security "B".

A negative correlation of -1.00 indicates that two securities moved in the opposite direction at all times. As security "A" gained in value, security "B" declined in value.

When added to a diversified portfolio, non-correlated securities may help to improve risk-adjusted return characteristics. In other words they may lower risk while providing the same, or even improving returns.

WHY IT MATTERS TO YOUR CLIENTS.

Today's advisors understand that clients – especially high-net-worth ones – are ultra sensitive to major draw downs in their portfolios. When applied well, utilizing non-correlated alternative securities goes beyond traditional diversification within equities and fixed income. The aim of that diversification is to "smooth out" portfolio returns, mitigating steep draw downs and providing the wealth protection your clients demand.

WHY IT MATTERS TO YOU.

Think about it this way. Even the best performing traditional portfolios can realize substantial losses. For your high-net-worth clients looking to potentially manage downside protection, by lowering risk and avoiding the large losses that can occur during bear cycles, low–correlating asset classes may yield higher cumulative returns over a full-market cycle (from peak to trough). They may also help provide the confidence necessary to stay fully invested, maximizing your billable assets.

FOR MORE INFORMATION ON INCORPORATING NON-CORRELATING STRATEGIES TO YOUR INVESTMENT APPROACH, CONTACT A DIREXION REPRESENTATIVE AT 877-437-9363 OR EMAIL US AT INFO@DIREXIONINVESTMENTS.COM

Date of First Use: May 7, 2012. Distributed by: Rafferty Capital Markets, LLC.