CASE STUDY | A PRACTITIONER'S GUIDE

Prudent Participation

Considering adding alternatives to help build more resilient portfolios doesn't require an overhaul.

David Berns, PhD, CIO & Cofounder

SIMPLIFY

simplify.us | info@simplify.us | 702.389.9705

WHO IS THE TARGET AUDIENCE OF THIS PAPER?

This piece is written for advisors who are on the fence regarding alternatives or who have added a little and aren't sure what comes next. It isn't a sales pitch for any one strategy. It's a practitioner's guide for adding real diversifiers, sized for comfort, funded from concentration you already have. Market risks have evolved, but has your portfolio?

INTRODUCTION

Pull up your portfolio. Stocks, investment grade bonds, high yield, maybe some private credit? It may look diversified, but these sleeves all get hit by the same thing: rates rising into slowing growth. When they move together, your diversification may disappear. That's what happened in 2022. That's what happened again in 1Q26. And it's why we believe alternatives are no longer optional. The good news is that if you haven't adopted a dedicated alternative sleeve, we believe you're not late to the party. We're in the early innings of an evolving macro regime shift.

SIMILAR RISK, DIFFERENT ASSET CLASS LABEL

The portfolio many advisors run today wasn't built intentionally. It accumulated. Large cap stocks here, a bond fund there, an income sleeve for clients who are seeking yield, a REIT because real estate feels different. The label on each line item is different. The underlying risk often isn't.

The vast majority of holdings in a traditional balanced portfolio is driven by economic growth risk or "cycle" risk and interest rate risk. Many may be exposed to both, directly or indirectly.

Figure 1 – Macro risk exposures across traditional asset classes

Read across each row to see how widely each risk is shared. The pattern is the point.

Asset Class	Recession/ Growth	Credit Spread Widening/Default	Rising Rates/ Inflation
Stocks — Growth Large cap tech / long-duration	High	Low	High
Stocks — Value Financials, energy, industrials	High	Low	Medium
Credit — High Yield BB — B rated corporates	High	High	Medium
Credit — IG A/BBB rated corporates	Medium	Medium	High
Treasuries Long Duration Nominal	Low	Low	High

Table is based on internal views and is for illustrative purposes only. This is not an all-inclusive list of potential macro risk exposures.

What stands out?

- **Long Duration Treasuries are one of the cleanest ways to help preserve a portfolio in a growth shock.** Within the traditional asset pool, long duration Treasuries are one of the primary ways to help preserve a portfolio in a growth-shock, yet this asset class has been subject to some of the greatest volatility and low returns since 2022.
- **High Yield credit is the most correlated to equities.** It carries high growth/cycle risk just like both equity buckets, plus it stacks on high credit risk. There is less diversification benefit here than the fixed income label implies.
- **Investment Grade is the most balanced but also may be the most misunderstood.** It is the only asset class without a "High" rating on growth or credit risk — but rate risk is high and inflation risk is medium, meaning in the current regime it is potentially doing the least useful work in a portfolio at historically tight spreads.

KEY OBSERVATION

Rates rising into slowing growth, like the 2022 and 1Q26 setup, hit stocks and bonds at the same time. The portfolio doesn't have a hedge for the risk that matters right now.

THE RISKS HAVE CHANGED. THE ALLOCATION HASN'T.

The 60/40 portfolio ***has*** been a prudent choice. Key word "has". Stocks and bonds have historically contributed both from a return and a diversification standpoint. The annualized return of the 60/40 portfolio for the 20-year period leading up to 2022 was 7.44%. What may be surprising is that from 2022 through May 2026, the same 60/40 portfolio has delivered a nearly identical annualized return of 7.64% but we can see that equities have delivered exceptional returns while bonds have sat idle.

Not only have we become dependent on concentrated equity exposure to keep us afloat, but our bonds have neither provided return, nor the diversification that we've grown accustomed to.

Figure 2 – Return and Correlation figures of the 60/40 portfolio over two distinct periods

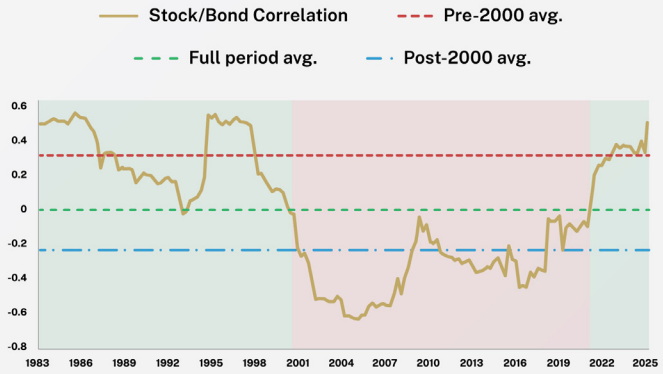
	20-year historical return (12/31/2001 – 12/31/2021)	Recent returns post 2021 (12/31/2021 – 5/31/2026)
60/40 Portfolio	7.44%	7.64%
S&P 500 Index	9.52%	12.72%
Bloomberg US Aggregate Bond Index	4.32%	0.02%
Quarterly return correlation of stocks and bonds	-0.26	+0.65

Source: Bloomberg. 60/40 portfolio = 60% S&P 500, 40% BBG US Aggregate Bond Index. Stocks = S&P 500 Index, Bonds = Bloomberg US Aggregate Bond Index. Past performance does not guarantee future results. Indexes are unmanaged and one cannot invest directly in an index.

The following chart shows how strong the recent breakdown in stock/bond correlations has been. After nearly 20 years of bonds offering diversification to stocks (shaded red due to negative correlation) we abruptly moved to positive territory (green) in early 2022 as the Federal Reserve Bank hiked rates on the back of the post-COVID inflation spike. This is fresh and we haven't had time to digest what this means for portfolio construction. It also puts into perspective that we could be in early innings of a new regime – you're not late.

Figure 3 – Historical stock and bond correlations

US Core Bond and US Large Cap Stock Correlation (1983 - 2026)



Source: Bloomberg. Stocks = S&P 500 Index, Bonds = Bloomberg US Aggregate Bond Index. Past performance does not guarantee future results.

The 60/40 portfolio was built for the world it was born into: disinflation, falling rates, globalization. We believe that world is over. Four shifts now define the environment your portfolio is forced to navigate.

Figure 4 – Key macroeconomic forces that are defining the current market regime

Sticky Inflation	Reorganization of supply chains. Trade tensions. Political warfare. Onshoring. Deglobalization. We're in our post-COVID era and it's difficult to see inflation reverting to pre-COVID levels anytime soon.
Geopolitical Risk	A persistent risk premium across energy, commodities, supply chains, defense. Not transitory.
Infrastructure Investment	The AI growth story is going to require hard assets to support it. Power grid, data centers, transmission, water, semis. Generational spend funded across cycles. Real economy demands real economy assets.
Fiscal Deficits	A structural floor on bond yields has been set. It's not a U.S. phenomenon either — this is global. We printed our way out of the GFC and COVID era and now there are ramifications.

WHY THIS MATTERS FOR YOUR PORTFOLIO

Every one of these shifts is inflationary at the margin. Every one of them puts a bid under real assets. Every one of them makes bonds a less reliable hedge in the moments you need one. Add to that an extremely concentrated stock portfolio. A portfolio built for the last 30 years is not a portfolio built for the next 10.

DEFINING ALTERNATIVES

Ask a room of 10 investors what strategies they consider "alternatives" and you'll likely get 10 different answers. Alternatives ("Alts") have become a catch-all label that carries with it distinct processes, risk profiles, liquidity profiles, and objectives within a portfolio.

> *Alts can be defined as investment strategies which strive to add a return source, reduce portfolio volatility, or address a specific risk (inflation, tail events, rate sensitivity) that traditional assets either cannot hedge or actively amplify.*

Many classify private equity and credit as "alternatives" which is true as they carry an illiquidity premium relative to traditional assets and can access certain investments that aren't publicly traded, but these private markets often deliver the same risks as daily liquid equity and credit.

At their core, alternatives are investments that work differently from stocks and bonds, in two main ways:

How they're built:

Traditional investments are relatively straightforward: you buy a stock or a bond. Alternatives tend to use more complex tools and techniques, such as derivatives (contracts that track the price of something rather than owning it directly), borrowed capital to amplify returns, or strategies that would be difficult for the average investor to access or replicate on their own.

How they make money:

Stocks make money when companies grow. Bonds make money by collecting interest. Alternatives earn their returns from entirely different sources, such as exploiting patterns in price momentum, getting paid to take on complexity or illiquidity that others don't want, or applying disciplined rules-based strategies that have historically had little connection to whether the stock market is up or down on a given day.

> *Because alternatives draw from a different well, they have the potential to keep working even when traditional markets are struggling.*

The newness of alts can cause hesitancy and skepticism. Leading with the potential key benefits, rather than the structural differences, can support more openness from clients.

For example, alts are designed to offer investors:



Increased Return — private equity, venture, opportunistic credit; seek excess return over public markets



Lower overall portfolio volatility — managed futures/CTAs, global macro, market-neutral; seek low or negative correlation to equities and bonds



Preservation in recession or deflation — long-duration Treasuries, certain hedge funds; seek to offer preservation in declining growth



Preservation in rising inflation — commodities, real estate, infrastructure, TIPS, trend-following; reduce erosion of purchasing power as these instruments are inflation adjusted or are the inputs themselves that drive higher costs



Potential enhanced Income — private credit, derivative income, BDCs, real assets with contracted cash flows; offer higher distributions than public, investment grade bonds

SORTING THE ALTS LANDSCAPE

Before we discuss how to start thinking about which alternatives to allocate to, let's revisit the macro risk table and include several alternative asset classes to show how they offer differentiated sources of risk alongside the traditional assets.

The distinction matters because true diversification isn't about holding more labels. It's about holding exposures with different sensitivity to the core macro risks.

Figure 5 – Macro risk exposures across traditional and alternative asset classes

Asset Class	Recession/ Growth	Credit Spread Widening/Default	Rising Rates/ Inflation
Stocks — Growth Large cap tech / long-duration	High	Low	High
Stocks — Value Financials, energy, industrials	High	Low	Medium
Credit — High Yield BB — B rated corporates	High	High	Medium
Credit — Investment Grade A/BBB rated corporates	Medium	Medium	High
Long Duration Treasuries UST nominal	Low	Low	High
Managed Futures Trend following/CTAs	Hedge	Low	Hedge
Gold	Medium	Low	Low
TIPS / Real Assets Inflation-linked, infrastructure	Medium	Low	Hedge
Long/Short Equity	High	Low	Medium
Market Neutral	Hedge	Low	Low
Global Macro	Hedge	Low	Hedge

TIPS = Treasury Inflation-Protected Securities. Table is based on internal views and is for illustrative purposes only. This is not an all-inclusive list of potential macro risk exposures.

For the purposes of this piece, we are focused on the top left quadrant of daily liquid, cycle-agnostic alternatives as they strive to offer robust, differentiated sources of return and because investing in non-liquid investments is not accessible to all. The other potential key benefit is that all of these can be sourced in an ETF vehicle, making it operationally easier to bolt on to your existing model portfolios.

Part of the reluctance of allocating to alts is how successful the simplistic stock/bond portfolio has been over the last several decades. The other reason is that the alternative category is a mess. It bundles a 7-year private fund lockup with a daily liquid commodity ETF. Doing due diligence on a single word that can have infinite definitions feels overwhelming.

It can be helpful to start by sorting the field on two dimensions: liquidity (daily to multi-year lockups) and portfolio role (cycle-dependent vs cycle-agnostic). That gets you to four quadrants. Many advisors never explicitly map this, and it turns out, it will make your job as an allocator easier.

Figure 6 – Mapping the universe of investable assets across their liquidity and cycle-dependency

DAILY LIQUID, CYCLE-AGNOSTIC	DAILY LIQUID, CYCLE-DEPENDENT
Managed Futures	Equities (Growth/Value)
Market Neutral	High Yield Credit
Tail-Risk/Options-Based	Investment Grade Credit
Volatility Risk Premium Harvesting	Commodities
Carry Strategies	Listed Infrastructure
Global Macro	Real Estate (REITs)
NON-DAILY LIQUID, CYCLE-AGNOSTIC	**NON-DAILY LIQUID, CYCLE-DEPENDENT**
Reinsurance/CAT Bonds	Private Equity
Royalties	Venture Capital
Hedge Funds (Lock-up)	Private Credit

KEY OBSERVATION

A strategy is truly cycle-agnostic if its return-generating mechanism is structurally independent of the economic cycle — not just if it has shown low correlation in a historical back test. Correlation is an outcome; the mechanism is what you want to underwrite.

Liquid means you can rebalance; you can rethink, you can explain it. Cycle-agnostic means it works in different macro regimes than stocks and bonds. Daily pricing means you have transparency. The rest of the alternatives landscape can come later, once the core is in place.

THE OBJECTIONS

Many advisors who haven't moved on alts have a short list of reasons. It's worth saying them out loud.

Figure 7 – Common obstacles to investing in alternatives

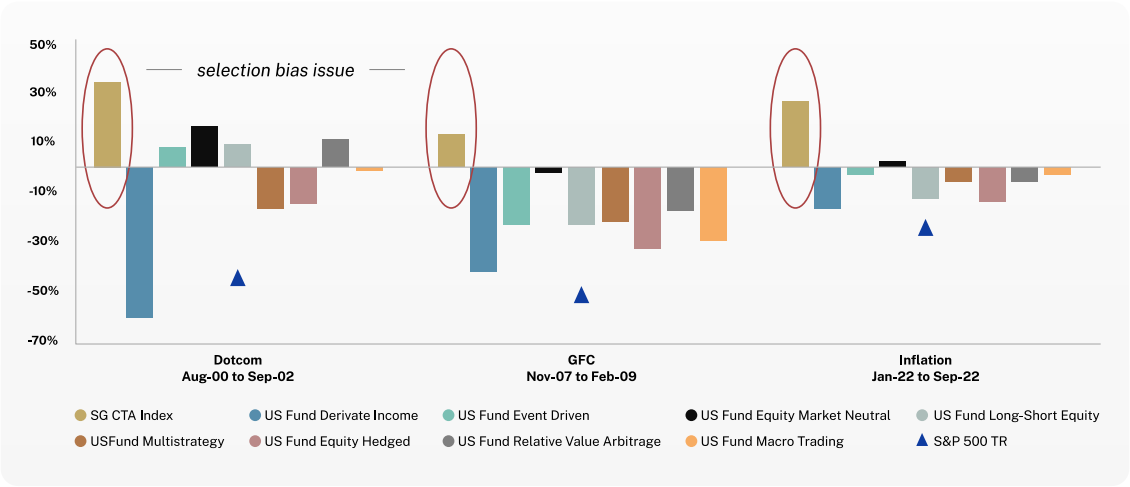
The Concern	The Honest Answer
Fees are too high	ETF-based alternatives are a lot cheaper than the classic 2 and 20 hedge fund, with fees often well below 100bps. As you will see in the "How to allocate" section, a 10% allocation to managed futures over the last 5 years has produced 75bps of alpha relative to a 60/40 – this is enough to cover the average fee that many advisors charge their clients.
Our team is resource-constrained to perform due diligence on these strategies	Start with rules-based, index-tracking liquid alts. Less manager risk, more transparency, easier to explain. Trend-following CTA and market neutral ETFs offer daily pricing and lower complexity than hedge funds.
Clients won't understand it	Framing these investments is key. Behavioral finance plays an important role here. Be prepared to proactively speak to the benefits. The 30-second script at the end of this piece can serve as a helpful starting point for those conversations.
My clients aren't asking me for these investments	Many of the fastest growing RIAs are building alternatives into core portfolios. The advisors who suffered the full drawdown of stocks and bonds in 2022 and 1Q26 are on their back foot. Their clients will be targets for solicitation from advisors who navigated these tough markets.
Alternatives go through extended periods of low returns	During 2011-2020, volatility was suppressed, bonds rallied from 20+ year lows, and trends were choppy. In 2022 and 1Q26, that setup reversed. The question isn't whether alts will always win — it's whether you want portfolio protection for the regime we believe is more likely going forward. The market environment in 2022 provides a relevant historical example for consideration. You can't hedge every scenario. You hedge for what's probable.
Bond yields are at cycle-highs making them potentially attractive – are we giving up on them right before they might work again?	The goal of introducing alternatives isn't to kick bonds out of the portfolio and, in fact, there are genuine reasons that holding bonds – especially longer duration – could be an excellent hedge should inflation collapse or recession fears re-emerge. It's all about balance, and alts are another lever to help navigate. They aren't meant to take over as the key portfolio driver.

Table is based on internal views and is for illustrative purposes only. It is not an all-inclusive list of obstacles to consider.

HOW TO ALLOCATE (WITHOUT REBUILDING)

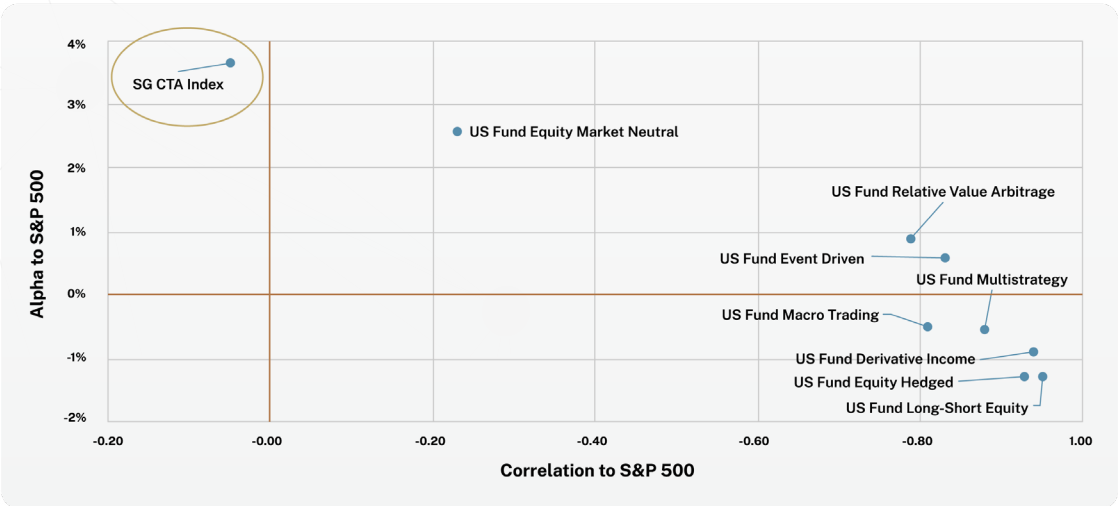
Selecting and sizing are two important questions. It's where the rubber meets the road, but you don't need to go from zero to sixty. While there are many liquid alternatives that an investor can choose from, managed futures have often acted as a portfolio hedge in times of market stress relative to other liquid alternatives. Diversification when you need it is a key reason to consider shifting assets away from stocks or bonds in a portfolio, while return-seeking is often a secondary objective.

Figure 8 – RETURN: The last 3 major market crises show managed futures outperforming not only stocks, but also many of their liquid alternative peers.



Source: Morningstar, Bloomberg. Data from Jan. 2000 to July 2025. One cannot invest directly in an index. Past performance is no guarantee of future results.

Figure 9 – RISK: Managed futures provide strong diversification benefits relative to US Large Cap stocks over their liquid alternative peers.



Source: Morningstar, Bloomberg data from Jan 2000 to July 2025. One cannot invest directly in an index. Past performance does not guarantee future results.

Introduce the concept of liquid alts by allocating 5% out of the gate. Observe its behavior over a couple quarters. If comfortable, add another 5%, bringing your allocation to 10%. Is 10% enough to make an impact? The analysis shows that it is. It's potentially enough to cover your management fee, as the portfolio with a 10% allocation to managed futures (before alpha) would have delivered over +0.75% annualized in greater return since stock/bond correlations turned positive in 2022.

You may not need to overhaul. You need to consider reallocation within the risk you already have. Here are two funding sources that may resonate with the current market backdrop:

- **Trim large cap concentration.** Many balanced portfolios are overweight large cap after the multi-year AI rally. The first 5% can come from here without materially changing the equity exposure profile.

- **Trim long duration.** The part of your bond portfolio most exposed to inflation surprise is also the part that may have hurt the most in 2022. The next 5% can come from here.

12/31/2021-05/30/2026	**Portfolio with Alternatives** (60% S&P 500; 30% Bbg US Agg; 10% Managed Futures)	**60/40 Portfolio** (60% S&P 500; 40% BbG US Agg)
Annualized return	8.15%	7.37%
Annualized volatility	10.84%	11.16%
Maximun drawdown	-17.04%	-20.57%

Source: Simplify, Portfolio Designer. Data from 12/31/2021 – 05/30/2026. "Managed Futures" represented by SG CTA Index. For illustration purposes only. Investing involves risk, including loss of principal. Past performance does not guarantee future results.

A PLAN TO GET THERE

Step 1

Learning curve

5% to one cycle-agnostic sleeve. Pick one. Watch how it behaves through a quarter or two of stress.

Step 2

You're making a difference in your client's portfolios

Add 5% of a second return driver. Now the alts allocation has two legs.

Step 3

You've built a professional-grade allocation

If you've earned conviction, dial up toward 15% to 20%. In our view, this can create a diversified sleeve that is designed to provide meaningful impact performance in a broad-market drawdown.

Many advisors stop at step 2. It's enough to move the needle and help lower volatility at the portfolio level without having to take your team (and clients) out of their comfort zone. The goal is to arrive at a meaningful allocation that survives a bad quarter. Discipline matters more than destination.

SAMPLE CLIENT SCRIPT

"Your portfolio successfully navigated the last 15-20 years. We're being proactive by adding these new investments to ensure your portfolio is positioned to navigate the next 10 years rather than being complacent – the world has changed. This small addition to the portfolio is designed to help provide diversification and make money when stocks and bonds don't. It's liquid and flexible. We can change our mind anytime. The goal isn't to beat stocks, although sometimes they can. It's to make sure that when stocks and bonds fall together, your portfolio is resilient."

THREE ACTIONS TO CONSIDER

- **Map the macro risks of your portfolio.** Mark each by what really drives it: growth, interest rate, credit, and inflation. If 90% of the portfolio lives in two factors, you've found the problem.

- **Pick one sleeve. One.** Liquid. Cycle-agnostic. Daily priced. Allocate 5%. Watch it for a quarter or two. The first step is the only one that requires courage. The rest is repetition.

- **Write down the script.** The 30-second sample client explanation above, in your own voice so that when the client asks, you're not improvising.

THE TAKEAWAY

You're not late. You're prudent. We believe the advisors who add a cycle-agnostic sleeve thoughtfully over the next 12 months will be the ones who don't have to explain another 'balanced' drawdown to a client.

This is an ongoing focus — how portfolios evolve as the environment changes and what truly improves diversification. We're always open to continuing the dialogue, because prudent participation starts with knowing what you own, and why it works.

GLOSSARY

Bloomberg US Aggregate Bond Index: A broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Carry Strategy: Investments designed to earn steady income from sources such as bond interest, loan payments, or option premiums. A significant portion of their return comes from collecting that income over time.

CAT Bond: Bond that allows insurance companies to transfer the financial risk of major disasters, such as hurricanes, earthquakes, or wildfires, to investors. Investors receive relatively high income, but they may lose some or all of their principal if a specified catastrophe occurs.

Disinflation: A slowdown in the rate of inflation. Prices are still rising, but they are rising more slowly than before.

Investment Grade (IG): Bonds issued by companies or governments that are considered to have a relatively low risk of default.

Royalties: An investment that seeks to generate income from contractual payments tied to the use or production of an underlying asset, such as intellectual property, energy production, or mineral extraction.

S&P 500 Index: The index includes 500 leading U.S. large cap companies and captures approximately 80% coverage of the available market.

SG CTA Index: Provides the market with a reliable daily performance benchmark of major commodity trading advisors (CTAs). Calculates the net daily rate of return for a group of 20 CTAs selected from the largest managers open to new investment. The SG CTA Index is equal-weighted and reconstituted annually and has become recognized as the key managed futures performance benchmark.

Tail-Risk/Options-Based: Investments that aim to provide protection during major market selloffs by using options designed to increase in value when markets fall sharply

Tight spreads: The yield difference between a bond and a comparable Treasury bond is relatively small. This generally indicates that investors view the bond as lower risk and are willing to accept less additional compensation for owning it.

TIPS (Treasury Inflation-Protected Securities): U.S. Treasury bonds designed to help protect investors from inflation. The value of the bond adjusts with changes in inflation, helping to preserve purchasing power over time.

Volatility Risk Premium Harvesting: These strategies seek to earn returns by selling or managing options and collecting premiums from investors who are willing to pay for market protection.

FOR INSTITUTIONAL USE ONLY.

IMPORTANT INFORMATION

Simplify Asset Management Inc. is a Registered Investment Adviser. SEC registration does not constitute an endorsement of the firm by the Commission, nor does it indicate that the advisor has attained a particular level of skill or ability. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy.

These materials are made available on an "as is" basis, without representation or warranty. The information contained in these materials has been obtained from sources that Simplify Asset Management Inc. believes to be reliable, but accuracy and completeness are not guaranteed. This information is only current as of the date indicated and may be superseded by subsequent market events or for other reasons. Neither the author nor Simplify Asset Management Inc. undertakes to advise you of any changes in the views expressed herein.

Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital.

For more information, please visit Simplify.us.

Simplify ETFs are distributed by Foreside Financial Services, LLC. Foreside and Simplify are not related.

©2026 Simplify ETFs. All rights reserved.