

OCTOBER NEWSLETTER



CUTTING THROUGH THE NOISE

Liquid Alternatives – Hedge Fund-like ETFs and Mutual Funds

Making the Case for Liquid Alternatives

At Carrera, we provide access to private hedge fund managers. However, not every client qualifies for these opportunities. Most private vehicles require investors to be “*qualified purchasers*” with net worth exceeding \$5 million, and many also impose *lock-ups* that limit liquidity—features that don’t fit every client’s needs.

So what’s the alternative?

As the ETF and mutual fund industry has evolved, a new segment has emerged: Liquid Alternatives. These strategies are designed to mirror hedge-fund-like approaches, yet they’re broadly available to all investors, trade daily (like ETFs and mutual funds), and avoid the heavy restrictions of private funds.

Liquid Alternatives can offer ways to diversify portfolios and potentially reduce risk in today’s richly valued markets. Key strategies include:

- Long/Short – combining long and short positions to seek returns in both rising and falling markets.
- Market Neutral – balancing long and short exposures to reduce correlation with overall market moves.
- Hedged Fixed Income – targeting income while mitigating interest rate and credit risks.
- Managed Futures / CTA – systematic trading across asset classes, often trend-following, to add diversification.

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ELEVATING THE STANDARD

Below are examples of representative funds within each category.

Liquid Alternatives	
Long – Short BlackRock Global Long/Short BDMIX	Market Neutral Victory Equity Market Neutral CBHIX
Hedged Fixed Income First Trust Low Duration Opportunities LMBS	Managed Futures /CTA iMDB Managed Futures DBMF

Breaking Down the Four Quadrants of Liquid Alternatives.

Long–Short

- **What it is:** A strategy that buys securities expected to rise in value (long) and sells short those expected to fall.
- **Objective:** Generate returns regardless of market direction by exploiting stock-picking skill.
- **Risk/Return Profile:** Typically more volatile than other alternatives; returns depend heavily on manager skill in selecting longs vs shorts.

Market Neutral

- **What it is:** A type of long–short strategy where long and short positions are carefully balanced (often dollar-neutral or beta-neutral).
- **Objective:** Eliminate broad market exposure, focusing on capturing relative performance between securities.
- **Risk/Return Profile:** Lower correlation with the equity market; tends to produce steadier, bond-like return streams, though often modest.

Hedged Fixed Income

- **What it is:** Fixed income strategies that use derivatives, short positions, or other hedges to reduce interest rate or credit risk.
- **Objective:** Provide income with less sensitivity to rate moves than traditional bond portfolios.
- **Risk/Return Profile:** Lower volatility than equities but can carry liquidity and credit risks. Often useful in rising rate environments.

Managed Futures / CTA (Commodity Trading Advisor)

- **What it is:** Systematic strategies that trade futures across asset classes (commodities, currencies, rates, equities), often trend-following.
- **Objective:** Capture medium- to long-term price trends and provide diversification from traditional assets.
- **Risk/Return Profile:** Historically uncorrelated with stocks/bonds; can perform well in stressed or trending markets, but may lag in sideways markets.

By introducing strategies that behave differently from equities and traditional fixed income, Liquid Alternatives can:

- Enhance diversification by adding return streams that are less correlated to the broad market.
- Manage risk by helping smooth overall portfolio volatility.
- Provide flexibility through daily liquidity, without the long lock-ups often associated with private hedge funds.

In short, we at Carrera believe that alternatives aren't designed to replace core holdings—but rather to complement them. For many investors, a measured allocation to Liquid Alternatives can create a more balanced, resilient portfolio that is better positioned for a variety of market environments.

That is a wrap for this month. Have some cider and a Happy Halloween!



September 2025 Recap

- **Economic Environment:** Growth cooled, inflation edged higher, and unemployment ticked up slightly.
- **Market Performance:** The S&P 500 fell 1.4%, yields eased to ~4.7%, oil rallied, and gold firmed.
- **Corporate Earnings:** Tech stayed resilient, energy rose with oil, while consumer sectors softened.
- **Global Trends:** Europe steadied, China's stimulus supported manufacturing, and EMs faced currency pressure.
- **Policy Outlook:** The Fed cut rates for the first time this year, with another likely in December.
- **Looking Ahead:** Markets remain focused on Fed moves, inflation prints, and labor data into year-end.

➤ Welcome Devin Ellis to the Carrera Team!

We're excited to announce that Devin Ellis has joined Carrera Capital Advisors as a Financial Advisor. Devin brings a track record of success, a strong growth trajectory, and the kind of experience and energy that matches our culture of high standards and client focus. We're thrilled to have him on board and can't wait to see the impact he'll make at Carrera.

Welcome, Devin!

➤ 5 Types of Investment Risk

Investing always involves some degree of risk. While risks can't be eliminated, being aware of them is an important part of understanding how markets work. Recent research highlights **5 common categories of investment risk**:

- **Market Risk** – The possibility of broad market declines due to economic, political, or global events.
- **Specific Risk** – Risks tied to a single company, industry, or asset, such as management issues or regulatory changes.
- **Inflation Risk** – The chance that rising prices reduce the real value of future returns.
- **Interest Rate Risk** – How changes in prevailing interest rates affect the value of bonds and other fixed-income securities.
- **Liquidity Risk** – The challenge of selling an asset quickly without impacting its price.

Takeaway: Risk is inherent in investing, but understanding different forms of it can help provide context for how portfolios behave across changing environments.

September 2025 Returns:

S&P 500 +3.6% || Dow +2.0% || Nasdaq 100 +5.4% || LT Treasuries +3.6%
T-Bills +0.3% || Aggregate Bonds +1.1% || Developed Int'l +2.1%
Emerging Int'l +7.1% || Commodities +0.9% || Real Estate +0.0% || U.S. Dollar +0.5%

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We use total returns that include the dividends and the expenses charged to investors for holding funds that track all corresponding benchmark indexes, so-called "Index Funds". Total returns use dividend-adjusted closing prices from Yahoo Finance as a raw input. Calculations are conducted in the R programming language by Carrera Capital Advisors.

The index returns for the month also utilize index funds that are designed to track an underlying index. Additional disclosures on each fund:

S&P 500 – iShares Core S&P 500 ETF ("IVV")

The Fund seeks to track the investment results of the S&P 500, which measures the performance of the large-capitalization sector of the U.S. equity market, as determined by S&P Dow Jones Indices LLC (the "Index Provider" or "SPDJI").

Dow 30 – SPDR Dow Jones Industrial Average ETF Trust ("DIA")

The Trust seeks to achieve its investment objective by holding a portfolio of the common stocks that are included in the Dow Jones Industrial Average (DJIA), with the weight of each stock in the portfolio substantially corresponding to the weight of such stock in the DJIA.

Aggregate Bonds – iShares Core U.S. Aggregate Bond ETF ("AGG")

The iShares Core U.S. Aggregate Bond ETF (the "Fund") seeks to track the investment results of an index composed of the total U.S. investment-grade bond market.

LT Treasuries – iShares 20+ Year Treasury Bond ETF ("TLT")

The iShares 20+ Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than twenty years.

T-Bills – SPDR Bloomberg 1-3 Month T-Bill ETF (“BIL”)

The SPDR Bloomberg 1-3 Month T-Bill ETF (the “Fund”) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of an index that tracks the 1-3 month sector of the United States Treasury Bill market.

Int’l Developed – iShares MSCI EAFE ETF (“EFA”)

The iShares MSCI EAFE ETF (the “Fund”) seeks to track the investment results of an index composed of large- and mid-capitalization developed market equities, excluding the U.S. and Canada.

Emerging Markets – iShares MSCI Emerging Markets ETF (“EEM”)

The Fund seeks to track the investment results of the MSCI Emerging Markets Index, which is designed to measure equity market performance in the global emerging markets.

Commodities – iShares S&P Goldman Sachs Commodity Index Trust (“GSG”)

The Trust seek to replicate the performance of the S&P GSCI Excess Return Index (S&P GSCI-ER), together with collateral assets consisting of cash, U.S. Treasury securities or other short-term securities that are eligible as margin deposits for index futures on the S&P GSCI-ER.

REITs – SPDR Dow Jones Global Real Estate ETF (“RWO”)

The SPDR Dow Jones Global Real Estate ETF (the “Fund”) seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of an index based upon the global real estate market

U.S.D. – Invesco DB US Dollar Bullish Fund (“UUP”)

The Invesco DB US Dollar Index Bullish (Fund) seeks to track changes, whether positive or negative, in the level of the Deutsche Bank Long USD Currency Portfolio Index - Excess ReturnTM (DB Long USD Currency Portfolio Index ER or Index) plus the interest income from the Fund's holdings of primarily US Treasury securities and money market income less the Fund's expenses