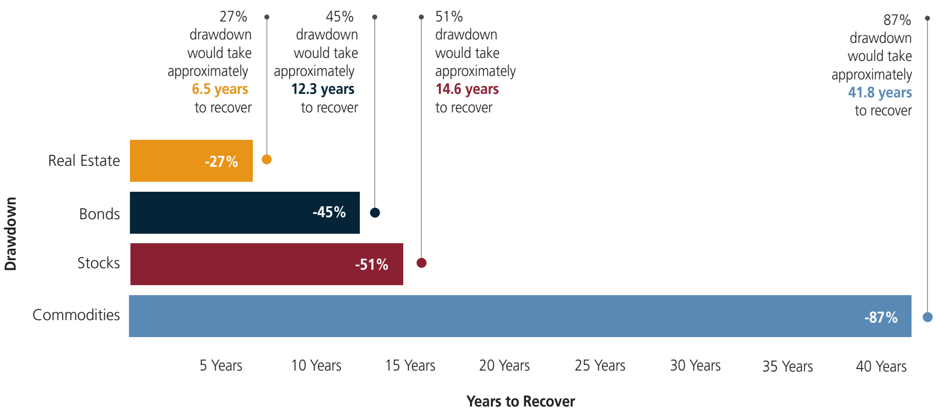
FOMO:
How to Manage Expectations when it comes to Alternative Investments

Risk management rarely feels urgent—until it's too late. In rising equity markets, investors may resist the more modest returns that may accompany hedging strategies such as fixed income and alternative investments due to a fear of missing out on market gains. This is why managing client expectations is one of the most critical roles a financial advisor plays. The challenge is not just building a well-diversified portfolio—it is helping investors stick with it. This means reframing the conversation—shifting focus from short-term performance to long-term portfolio stability and resilience.

One effective way to do this is by focusing on the time required to recover from market drawdowns. As the chart below shows, many investors understand losses in percentage terms, but few appreciate how long it can take to fully recover—not just to recoup losses, but to reclaim the compound growth they have missed out on during that period.

Maximum Drawdowns and Recovery of Various Investments

February 1986 - September 2025 (assuming a 5% average annual return)



This math becomes even more sobering for investors approaching retirement. For example, a 45% loss (which the Bloomberg U.S. Long-Term Treasury Bond Index experienced in 2023) at age 64 would require an unrealistic 82% return to fully recover. In such cases, the emotional and financial toll of waiting several more years to retire, or accepting a permanently reduced lifestyle, is profound.

Source: LoCorr Fund Management. Bonds, Bloomberg U.S. Long-Term Treasury Index, Real Estate, S&P/Case-Shiller U.S. National Home Price Index; Stocks, S&P 500 Index; Commodities, S&P GSCI Index.

Key Takeaways

- FOMO can undermine long-term discipline. In strong markets, the fear of missing out on equity gains can lead investors to abandon diversification—just when risk management is most needed.
- Traditional diversification is under pressure. Rising correlations between stocks and bonds have weakened the 60/40 portfolio, making it harder to recover from drawdowns—especially for those nearing retirement.
- Alternative investments can help investors stay the course. When thoughtfully constructed, a sleeve of diverse, low-correlating strategies can enhance resilience, reduce volatility, and make it easier to stick with long-term goals.

When markets decline, for each percentage point lost, an even greater return is required to get back to breakeven. For this reason, allocating to investments that behave differently than traditional markets, such as alternative investments, may contribute to stronger long-term returns and improved portfolio durability.

The Deeper the Drawdown, The Harder it is to Bounce Back

Broad Market Drawdown	Gain Required to Breakeven
10%	11%
30%	43%
50%	100%

Equity markets have historically demonstrated a strong ability to recover from downturns, a trend that has accelerated following the Global Financial Crisis (GFC) and COVID. While past recoveries, such as the -44% decline during the Dot Com Bust in the early 2000s, often took years to recover from, more recent market rebounds have been noticeably faster. Despite markets having a strong long-term track record of recovery, the speed of that recovery is not always guaranteed to be quick. What if the next drawdown is different? If equity market corrections were to take years to recover and another lost decade ensues, how would that impact investor portfolios, especially for those nearing retirement? The uncertainty about how quickly the markets will bounce back post-drawdowns is a reminder of the importance of diversification and ensuring your allocations move differently at different times.

Alternative Investments Can Offer Both Risk Management *and* Growth

Sophisticated institutions such as sovereign wealth funds, endowments, foundations and family offices began adopting alternative investments decades ago. The goal? To achieve long-term capital appreciation, diversify across uncorrelated strategies, and dampen volatility. In short, to fulfill their mandates without relying solely on traditional investments. These institutions face the same challenges as individual investors do—seeking diversifiers that have the potential to improve long-term portfolio performance while reducing risk.

Over the last few decades, the range of alternative investments available to individual investors has expanded, providing them with similar access to that of institutions. The asset class's growing popularity stems from its ability to simultaneously address two key elements in portfolio construction: performance and risk management.

	Performance	Risk Management
Portfolio Construction Mandate	Invest in assets suitable to the investor's financial goals, time horizon, risk tolerance and personal circumstances.	Manage portfolio risk to minimize drawdowns that could jeopardize the investor's financial plan.
Role of Alternatives	Provide access to a broader set of opportunities with differentiated return streams that can provide greater growth potential than traditional markets.	Offer solutions for adding stability to portfolios that cannot be found by combining traditional stock and bond investments.

While the search for higher returns often dominates investor conversations, **the ability to withstand volatility is what defines true financial resilience.** In a world where market cycles are becoming shorter and shocks are occurring more frequently, building portfolios that can bend but not break becomes a central imperative. Managing risk, however, requires more than just access to markets—it demands discipline, a deeper understanding of portfolio construction, and often professional guidance.

About LoCorr

LoCorr is a leading provider of low-correlating investment strategies founded on the belief that non-traditional investment strategies with low correlation to stocks and bonds can reduce risk and help increase portfolio returns. LoCorr offers investment solutions that provide the potential for positive returns in rising or falling markets and help to achieve diversification in investment portfolios.

Contact your financial advisor to learn more.

LoCorr Funds | 888-628-2887 | info@locorrfunds.com

Past performance does not guarantee future results. Diversification does not assure a profit, nor protect against loss in a declining market. Index performance is not illustrative of Fund performance. One cannot invest directly in and index.

Bloomberg U.S. Long-Term Treasury Index is an unmanaged benchmark index of all publicly issued debt of agencies of the U.S. government, quasi-federal corporations and corporate debt guaranteed by the U.S. government, with maturities ranging from 10 to 30 years. **S&P 500 Index** is a capitalization weighted unmanaged benchmark index that includes the stocks of 500 large capitalization companies in major industries. This total return index includes net dividends and is calculated by adding an indexed dividend return to the index price change for a given period. **S&P/Case-Shiller Home Price Index** is the leading measure for the U.S. residential housing market, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P GSCI Index** (formerly the Goldman Sachs Commodity Index) is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures.

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.855.LCFUNDS, or visiting www.LoCorrFunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Funds invests in foreign investments which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. Investing in commodities may subject the Funds to greater risks and volatility as commodity prices may be influenced by a variety of factors including unfavorable weather, environmental factors, and changes in government regulations. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed, Mortgage-Backed, and Collateralized Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Derivative contracts ordinarily have leverage inherent in their terms which can magnify the Fund's potential for gains or losses through increased long and short position exposure. The Funds may access derivatives via a swap agreement. A risk of a swap agreement is the risk that the counterparty to the agreement will default on its obligation to pay the Funds. The Funds will incur a loss as a result of a short position if the price of the short position instrument increases in value between the date of the short position sale and the date on which an offsetting position is purchased. Investments in lower-rated and nonrated securities presents a greater risk of loss to principal and interest than higher rated securities. Underlying Funds are subject to management and other expenses, which will be indirectly paid by the Funds. The Fund's portfolio will be significantly impacted by the performance of the real estate market generally, and the Funds may be exposed to greater risk and experience higher volatility than would a more economically diversified portfolio. Small and mid-sized companies may have limited product lines, markets or financial resources, and they may be dependent on a limited management group. There is no assurance that any hedging strategies utilized by the Funds will successfully provide a hedge to the portfolio's holdings which could negatively impact Fund performance.

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