SHINNECOCK PARTNERS

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Goldilocks, The Three Bears and Our Search for Yield
By Alan Snyder

As I read *Barron's* this weekend looking for investment insights, I couldn't help but think of Robert Southey's fairy tale (published in 1837). The contradictory advice from various notable luminaries sealed the deal on how Goldilocks and our search for yield are intertwined. Hopefully, Dow Jones will not cancel my subscription for this sacrilege.

Papa Bear tastes the porridge and pronounces: "Too hot." Rising interest rates are imminent and all should be in cash. Maybe, but what is the trajectory? The Fed predicts two rate increases this year – like Papa Bear, too hot. The market isn't a believer, but it could happen.

At Shinnecock we have built a portfolio of multiple alternative lending strategies, which with a 23-month average portfolio duration protects, albeit not instantly or perfectly, against this outcome of rising rates.

Mama Bear tastes the porridge and overrules Dad. "It's too cold." (Sounds like my wife!) Interest rates won't rise and may even go down due to China weakness, central banks unloading Treasuries to protect currencies, and weak earnings from the strong dollar. In short, a slowdown could become a mild recession.

We at Shinnecock believe that our multi-strategy approach to alternative lending also addresses this possibility, however without a government guarantee. Our portfolio does enjoy a large buffer from rate declines and less favorable economic conditions. As crafted, the portfolio has a current default rate of approximately 3%. Evenly distributed among sub-managers, defaults could increase 450% before material risk to principal. Moreover, life settlements and trade finance have little correlation to rates, plus rates for the other categories are quite sticky if past crunches (2008/2009) offer any evidence. Again, our alternative lending portfolio should circumnavigate Mama Bear's prediction.

Lastly, Baby Bear asserts that the porridge temperature is just right. Goldilocks being as skeptical as any reader herein, agrees but tastes all three bowls herself.

Alternative lending, with its short duration will adjust to rising rates if the Fed does more but doesn't go hog wild. Furthermore, a multi-strategy diversified approach, utilizing multiple domain specialist experts, can provide significant downside protection and a 6-8% current income. In a world where a muddling GDP growth rate of 1% - 3% may be the best we can hope for, a high yield portfolio of short duration alternative lending strategies might be ideal.

We recently created a generic yet detailed presentation to spread the gospel on how compelling this overall space can be for investors. Take a gander at the presentation ("The Uberization of Finance: Investing in Non-Bank Banks") on our website at www.shinnecock.com/#articles.

In this presentation we offer some thoughts on the whys and wherefores (not without some of our prejudices bleeding through) in building a diversified multi-strategy investment to achieve attractive yield with measurable risk mitigation.