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What a diversifier is for

An educational note

Quasar Capital Management

“Diversifier” is often used as a label—bonds, gold, commodities, alternatives—as if the name were the hedge. It is more accurate to treat a diversifier as a *job* in a portfolio design. In this note we distinguish three jobs that investors routinely collapse into one word: ballast, crisis-following, and real-asset shock. Calendar 2022 is a public test of that distinction: a classic stock–bond mix did not ballast, while a broad commodity index and a trend-following CTA index were positive. We then show why a crisis-following mandate can look idle for a decade and still be a coherent role, and why average correlation with equities is not a substitute for a job description. The practical test is narrow: say what the sleeve is hired to do, and evaluate it over a window that includes quiet years.

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About Quasar Insights

Quasar Insights publishes educational Research for prospective and existing investors. Notes emphasize process, evidence, and risk awareness—not forecasts or urgency marketing. This issue is about how to read a diversifier: roles and expectations, not a forecast of the next regime.

Introduction: A label is not a job

Investor language treats “diversifier” as a type of holding. Bonds diversify stocks. Gold diversifies paper assets. Alternatives diversify “traditional” portfolios. The noun does the work that a mandate should do.

A prior Insights note treated market-cap passive as a coherent equity-beta strategy with a visible risk budget, not as a finished multi-driver book. This note asks a different question. If a stock–bond mix is not a universal ballast, what *is* a diversifier for?

The useful unit is a *job*. A job states what the sleeve is hired to do, in which economic situations it is supposed to help, and how it will look in the long stretches when that situation does not arrive. Labels do not carry those terms. The same asset can do different jobs in different regimes, or none of the job it was hired for.

> **Working premise.** A diversifier is a role in a portfolio design—not a ticker class, and not a promise that it will rise whenever equities fall.

Three jobs

Most arguments about “whether diversification worked” mix at least three mandates.

Exhibit 1. Three jobs

Job	Hired to do	When it often looks useless
Ballast	Offset equity stress in a growth scare or flight to quality	Inflation and tightening that hit stocks and bonds together
Crisis-following	Participate in persistent trends, including risk-asset downtrends	Range-bound markets with few large, sustained moves
Real-asset shock	Participate in supply or inflation disruptions in commodities	Demand-shock recessions, when commodities fall with risk assets

Ballast is the job high-quality duration is usually hired to do. In many growth-scare equity declines, investors have bid for Treasuries and the bond leg has offset some of the equity loss. That is a real historical pattern. It is not a law. When the shock is inflation and rapid tightening, the ballast sleeve can be asked to fall with equities.

Crisis-following is a different job. Trend-following managed futures programs are not contractual insurance. They take time-series positions across assets and, on average, have historically been able to sit short risk assets in prolonged declines. Hurst, Ooi, and Pedersen (2017), in a century-long study of time-series momentum, find positive hypothetical returns in **eight of the ten largest 60/40 drawdowns** since

1880—and note that the strategy can miss abrupt crashes, such as 1987, because it cannot always reposition in time. The job is to participate in persistent trends. It is not a put.

Real-asset shock is a third job. A broad commodity complex is hired to participate when supply or inflation, rather than a collapse in demand, is the dominant disturbance. That is why 2022 and 2008 can produce opposite readings for the same “commodities diversify” slogan. Gold is often filed in the same drawer; it is a different instrument with a different, and mixed, crisis record. Lumping gold and energy into one “real assets” hedge is another label error.

A fourth job sits next to these three and is routinely mixed in: **carry**, including harvesting a volatility risk premium. Selling insurance is not the same as buying it. Public put-write research (for example Bondarenko’s work on the Cboe S&P 500 PutWrite framework) treats that premium as compensation for negative skew—short crash convexity, not a tail hedge. The point for this note is definitional. Do not hire a carry sleeve to do a crash job, and do not evaluate a crash sleeve on its income in a quiet tape.

> **Exhibit 1 takeaway.** Diversification fails in the telling when several jobs are graded as if they were one holding.

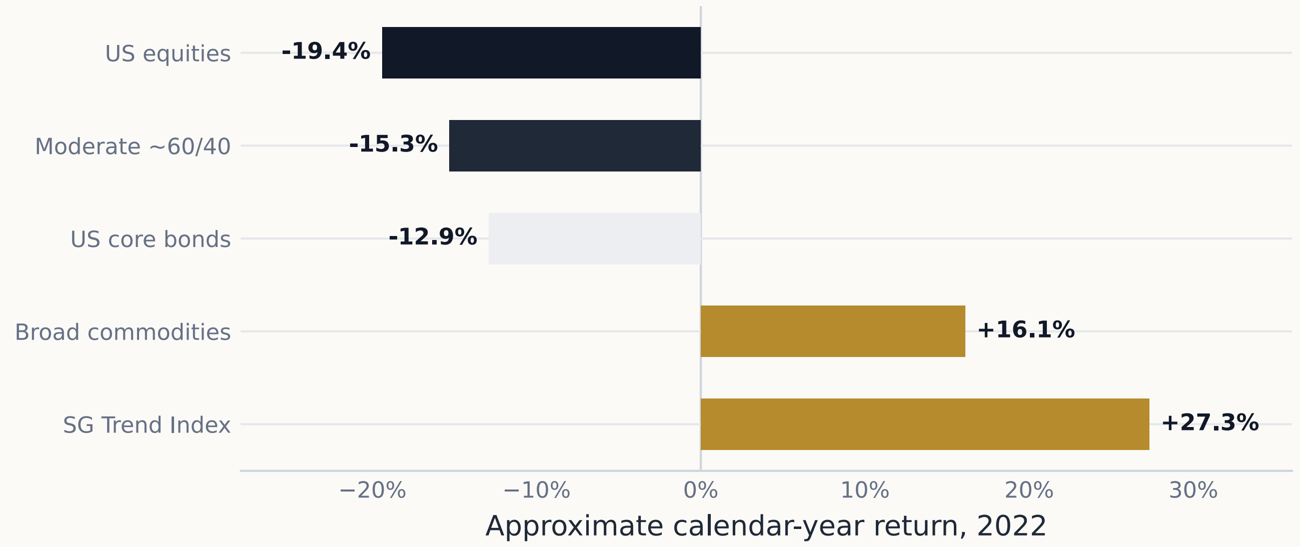
2022 as a job test

Calendar 2022 is useful because it paid some of these jobs and failed others in the same year. It is not a ranking of strategies going forward, and it is not an argument that 60/40 is obsolete.

Morningstar reported that its **US Moderate Target Allocation Index**—a diversified 60/40-style benchmark—fell about **15.3%** in 2022, while its US equity market measure fell about **19.4%** and its US core-bond measure about **12.9%**. The ballast job, as usually staffed, did not offset equity stress under high inflation and rapid tightening.

Other public series, hired for other jobs, were not negative. The Bloomberg Commodity Index Total Return rose **16.09%** in 2022 (abrdn / Bloomberg). Société Générale’s Trend Index, an equally weighted basket of large trend-following CTAs, net of constituent fees, gained about **27.3%** (Hedgeweek, citing SG Prime Services). Gold, often sold as the diversifier of first resort, was roughly unchanged to slightly negative in US-dollar terms.

Exhibit 2. Calendar 2022 returns, by job



Source: Morningstar US Market, US Moderate Target Allocation, and US Core Bond (2022 commentary). Bloomberg Commodity Index Total Return from abrdn N-CSR quoting Bloomberg, year ended 31 Dec 2022. SG Trend Index from Société Générale via Hedgeweek (Jan 2023). Indexes are not investable products; methodologies differ.

Read as jobs, the year is coherent. Duration-as-ballast was the wrong tool for an inflation-and-tightening shock. A commodity complex hired for that shock was paid. Trend-following, which can take persistent short positions in bonds and other markets, was also paid. Gold's near-flat year is a reminder that a popular diversifier **label** is not automatically a paid invoice.

None of that implies that commodities or trend will hedge the next equity decline. A demand-shock recession can hit the commodity job. A fast crash can miss the trend job. 2022 shows that "diversifier" was never one thing. It does not show which job will be needed next.

> **Exhibit 2 takeaway.** The same calendar year can fail ballast and pay other jobs. That is role evidence—not a forecast.

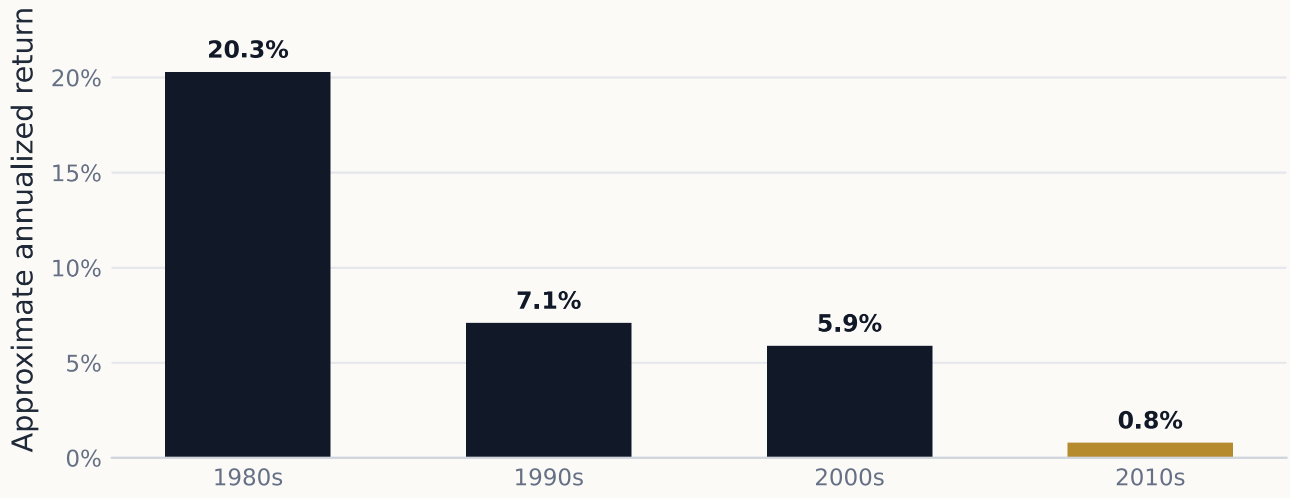
Quiet years are part of the mandate

If a sleeve is hired for rare, persistent disturbances, it will spend most years looking unnecessary. That is not a footnote. It is how the job is priced in investor patience.

Managed futures are the clean public example. Universa, citing the Barclays CTA Index, reports approximate annualized returns of **20.3%** in the 1980s, **7.1%** in the 1990s, **5.9%** in the 2000s, and **0.8%** from

2010 through 2019. The 2010s bar is the one that matters for expectations: a decade in which a crisis-following family of programs was, in round numbers, flat.

Exhibit 3. Barclays CTA Index, annualized by decade



Source: Universa, "Can an Allocation to CTAs Move the Needle?" (Nov 2022), citing the Barclays CTA Index. Approximate decade annualized returns; not a Quasar backtest and not the SG Trend Index used in Exhibit 2.

AQR (2019), in "You Can't Always Trend When You Want," attributes much of that 2010s softness to an unusually small magnitude of risk-adjusted market moves after the global financial crisis—not to a broken mapping from trends into P&L. The strategy's job requires large, persistent moves. When markets do not supply them, the sleeve looks idle.

The 2022 SG Trend print in Exhibit 2 sits in a **different** index family. It should not be spliced onto Exhibit 3 as a continuous track record. The qualitative sequence is still the one investors need: a crisis-following mandate can look like dead weight for a decade and then be asked to work in a year like 2008 (SG Trend about **+20.9%**) or 2022 (about **+27.3%**). Evaluating the sleeve only on trailing equity-relative returns during the quiet stretch is a mandate error. It grades a crisis-following job on how often the disturbance arrives.

That is also why a diversifier should not be hired as equity replacement. Universa's note is explicit that a CTA allocation is a poor substitute for equity beta across full cycles. That is the right conclusion for this note. The job, if you hire it, is not to keep up with stocks. It is to be present for a class of episodes in which stocks—and sometimes bonds—are the wrong tool.

> **Exhibit 3 takeaway.** Underperformance versus equities in a quiet decade is often the cost of keeping the job staffed—not, by itself, proof the job is obsolete.

Correlation is not the job

A common shortcut is to call anything with a low average correlation to equities a diversifier. Average correlation is a statistic. It is not a mandate, and it moves.

We compute month-end total returns for three liquid ETF proxies—intermediate Treasuries (IEF), gold (GLD), and a broad commodity fund (DBC)—and their correlation with SPY, splitting months by the sign of SPY. The sample runs from March 2006 (DBC history) through August 2026: 246 months, of which 166 are up months and 80 are down months. This is a public-price illustration, not a sleeve backtest and not a stock-level pairwise series.

Exhibit 4. Correlation with SPY, up versus down months

Source: Quasar calculation from month-end adjusted ETF prices (IEF, GLD, DBC, SPY). Stress = SPY monthly return < 0; calm = SPY ≥ 0. Sample Mar 2006–Aug 2026 (n = 246; 166 up / 80 down).

In this window, intermediate Treasuries are **approximately uncorrelated** with SPY in both up months (about **−0.03**) and down months (about **0.00**). That is not the folklore version of ballast, in which bonds rally whenever stocks fall. It is closer to the 2022 lesson: over a mixed-regime sample, duration is not a reliable “up when equities down” machine. Gold’s correlation with SPY is modestly positive in both states (about **0.09** up, **0.07** down). Broad commodities are positively correlated with equities, and **more so** in down months (about **0.22** up, **0.34** down).

The commodity panel is the one that looks like a contradiction until jobs are restored. On average, DBC has co-moved with risk assets in equity-down months. In 2022, a broad commodity index still had a large positive year because the shock was inflation and supply, not a classic demand collapse. Average down-month correlation would have graded commodities as a poor diversifier. The inflation-shock **job** was the one that paid.

Treasuries make the complementary point. Near-zero average correlation with SPY did not prevent a double-digit core-bond loss in the one recent year when ballast was most advertised. Correlation summarized the average. It did not state the job, and it did not flag the regime in which the job fails.

> **Exhibit 4 takeaway.** Low or unstable correlation with equities is not a job description. Grade the sleeve against the disturbance it was hired to meet.

How to evaluate a diversifier

The exhibits suggest a short diligence list.

1. **Name the job.** Ballast, crisis-following, real-asset shock, and carry are different mandates. “Alts” is not a mandate.
2. **Name the failure mode.** Ballast can fail in inflationary tightening. Trend can miss a fast crash. Commodities can fall with equities in a demand shock. Carry can lose when implied-to-realized compression reverses.
3. **Use a window that includes quiet years.** A crisis-following sleeve that lagged equities for a decade may have been in-mandate. Trailing three-year tracking error versus the S&P is the wrong scoreboard for that hire.
4. **Do not promote a diversifier to equity replacement.** Role design is not a forecast that the sleeve will “keep up” in a long bull market.
5. **Treat 2022 as a test of roles, not as a new permanent ranking.** Regime dependence cuts both ways.

None of this requires a view on the next FOMC cycle, the next inflation print, or the next equity drawdown. It requires refusing to let a label do the work of a brief.

Roles, not recipes

Quasar Capital Management manages the **Horizon Dynamic Multi-Strategy Portfolio** as a multi-sleeve book. The design premise that belongs in public is the same point this note makes with public indexes: **sleeves are hired for jobs.** A defensive rotation sleeve, a commodity-trend sleeve, and a volatility-related sleeve are not interchangeable “diversifiers.” They are different roles. They will not all help in the same month, and they are not supposed to.

This note does not describe how Horizon sizes those roles, how signals are built, or how live accounts have fared versus equities. Those are separate questions. The question here is prior to implementation: if you cannot say what a diversifier is **for**, you cannot say whether it is working.

The durable test is ordinary language. What disturbance is this sleeve meant to meet? In which years should we expect it to look idle? What would count as job failure rather than job cost? Ambiguity about those answers is how a bond fund, a gold ticker, a commodity basket, and a trend program get thrown into one bucket—and then graded, together, on whether they beat the S&P last year.

References and further reading

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3. Hurst, B., Ooi, Y. H., & Pedersen, L. H. (2017). "A Century of Evidence on Trend-Following Investing." *Journal of Portfolio Management* 44(1).
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Disclosures

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