Navigating Through Opposing Forces
Seeking Successful Investing Outcomes

Investors face more challenges today than they have in a very long time. While some of these challenges are not new, the confluence of them, combined with the current financial market landscape, has created opposing forces for investors, making navigating through this environment a difficult task.

Fortunately, there are steps investors can take to address these challenges and help them reach their investment goals.

Risks

Neededs
Investors today currently face a myriad of challenges, among them longevity and the rising cost of essential services like healthcare and housing. This is forcing them to seek out better and more certain investment outcomes, which will require higher returns and lower risk.

Challenges
The financial markets, once a more reliable source to help grow investment portfolios, have become more precarious and unclear due to a number of factors, including low economic growth, higher instances of volatility, and the ongoing challenges of traditional income solutions.

Outcomes
Given the interconnectedness of today's markets, macro forces around the globe can be the catalysts for widespread spikes in volatility.

Opportunities

Active Management
In a low growth environment, active managers that specialize in fundamental research and have the ability to invest across sectors, regions and asset classes, can potentially find the highest quality opportunities while side-stepping lower-quality, higher-risk investments.

Diversification
A dynamic approach is required which may include seeking assets with low correlations across other major asset classes to help manage the effects of volatility and mitigate large drawdowns.

Think Outside the Style Box
Understanding both the benefits and the limitations of portfolio diversification can help investors optimize their asset mix and address specific risk factors.
## Investment Considerations

**Active Management**

Active equity and fixed income strategies that rely on fundamental research to identify quality investment opportunities across countries and sectors can potentially help deliver consistent risk-adjusted returns and dampen volatility so a portfolio can grow over time and help investors meet long-term objectives.

**Diversification**

Consider strategies that have proven low-correlated returns to other major asset classes during periods of heightened volatility and during market dislocations.

Alternative, multi-asset strategies that focus on asset allocation flexibility and capital preservation can help protect portfolios against extended drawdowns.

**Think Outside the Style Box**

For income seekers, consider both equity and fixed income strategies that balance the growth of both principal and income while preserving capital, and do not solely focus on the highest-yielding, higher-risk assets.

## Helping Meet Investor Challenges

Dreyfus is committed to help investors navigate complex global financial markets by aligning challenges presented by a changing investment environment with opportunities identified through a better understanding of risk. With a confluence of opposing forces at play, we help to identify opportunities which can improve investment outcomes in different market cycles.
1 | Needs

Socio-economic forces are demanding higher and more consistent investment returns.

CHART 1

- Demographics, and specifically longevity, are forcing investors to reconsider their investment plans and options.
- Core inflation (as measured by the Consumer Price Index) has risen at a relatively subdued pace over the past few years. This subdued pace has masked the rapid rise of prices in some key components, including healthcare and housing, which can quickly drain a retirement portfolio.

CHART 2

- Given the combination of these challenges, investors will need to get more out of their investment portfolios than they have in the past, especially those investors that have defined contribution plans.
- While investors do have other options, such as working longer in life or increasing contributions, for those looking to the financial markets for help, they will need to achieve higher returns, more narrow dispersion and a lower probability of tail risk.¹

Source: World Bank (U.S. Life Expectancy) and U.S. Bureau of Labor Statistics (Consumer Price Index for All Urban Consumers: All Items, Medical Care, and Shelter); all retrieved from FRED, Federal Reserve Bank of St. Louis; October 24, 2016.

Source: BNY Mellon, for illustrative purposes only. The blue line represents a normal range of investment return distributions. Current “forces” in the market, including longevity, cost of living and retirement savings gap, are pushing investors “right & narrow” from the normal range to not only achieve higher returns, but higher returns that are more consistent over time while avoiding negative tail risk (bronze line).

¹ A “tail risk” event occurs when something unexpected happens causing extreme price movement of an asset or asset class either up or down.
**Greater Challenges**

Headwinds from Global Economic Growth and Financial Market Factors

**CHART 3**
- After accelerating out of the Global Financial Crisis and the Great Recession period, global economic growth has fallen back below its long-term average of 3.5%.
- Stagnant economic growth can sap confidence from the financial markets as investors re-set their future return expectations to be lower and less consistent.

**CHART 4**
- Given relatively subdued volatility over the past few years, investors might be getting too complacent about risk. This can leave them vulnerable to “left-tail” type events and the larger drawdowns that are often associated with them.
- Accommodative monetary policy has pushed fixed income yields to historic lows. While these low rates may have benefited government and corporate borrowing costs, it has hurt investors, especially those reliant on this asset class for income.

Source: International Monetary Fund, World Economic Outlook, April 2016.

**CHART 4**
**LEFT AND LOW**
Investing landscape is offering lower, more inconsistent returns and larger tail risk.

Source: BNY Mellon, for illustrative purposes only. The blue line represents a normal range of investment return distributions. Current macro “forces” in the market, including slow economic growth, volatility, and low income, are pushing investors “left & flat,” which means the financial markets are providing a larger dispersion of lower returns with increased tail risk (bronze line).
### 3 | Outcomes

**Evolving Nature of Investment Returns**

**CHART 5**

- Risk and return dynamics have changed dramatically over the past two decades. To achieve a 7.5% annual return, which could have been accomplished with allocations to just U.S. fixed income markets in 1995, today requires investors to build more complex portfolios and assume higher levels of risk.

- While portfolio diversification has effectively been forced upon investors to strike the right balance, it is critical to understand both the benefits and limitations that diversification brings.

**CHART 6**

- The current macroeconomic environment and financial market challenges are pushing the distribution of outcomes “left and flat,” meaning the likelihood for higher returns decreases while tail risk increases. Those challenges include low economic growth, increased instances of volatility and inconsistent returns across asset classes.

- Given the opposing forces in play, investors must be more vigilant about the risks in the markets and in their portfolios. More specifically, because risk is the primary driver of return, they need to ensure they are taking the “right” type of risk based on their objectives.

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**CHART 5**

**SAME RETURN FOR INCREASED COMPLEXITY AND RISK**

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Fixed Income</th>
<th>Non-U.S. Equity</th>
<th>U.S. Large Cap Equity</th>
<th>U.S. Small Cap Equity</th>
<th>Private Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>52%</td>
<td>4%</td>
<td>14%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>2015</td>
<td>12%</td>
<td>33%</td>
<td>22%</td>
<td>8%</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Expected Return**

- 1995: 7.5%
- 2005: 7.5%
- 2015: 7.5%

**Standard Deviation**

- 1995: 6.0%
- 2005: 8.9%
- 2015: 17.2%

Hypothetical example only.

Source: Callan Associates, Callan Capital Market Projections. Chart does not show actual performance. Asset classes and allocations for 1995, 2005, and 2015 are Callan’s and based on their forward-looking capital market projections. Past performance is no guarantee of future results. “Risk” is represented by standard deviation, which is a statistical measure of volatility of an investment.

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**CHART 6**

**OPPOSING FORCES**

- Slow Growth
- Volatility
- Low Income
- Longevity
- Cost of Living
- Savings Gap

Range of Outcomes
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RISKS
All investments contain risk and may lose value. Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. Small and midsize companies carry additional risks because their earnings and revenues tend to be less predictable, and their share prices more volatile than those of larger, more established companies. The shares of smaller companies tend to trade less frequently than those of larger, more established companies. Equity REITs may be affected by changes in the value of the underlying property owned by the trust, while mortgage REITs may be affected by the quality of any credit extended. Further, REITs are highly dependent upon management skill and often are not diversified. REITs also are subject to heavy cash flow dependency and to defaults by borrowers or lessees. Bonds are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

INDEX DEFINITIONS
The BAML High Yield Master Index II is a market capitalization-weighted index of all domestic and Yankee High-Yield Bonds. Issues included in the index have maturities of at least one year and have a credit rating lower than BBB-Baa3, but are not in default. Bloomberg Barclays Global Aggregate Index represents the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. Bloomberg Barclays U.S. Aggregate Index represents the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. Indices are unmanaged and one cannot invest in an index. The Bloomberg Barclays U.S. Credit Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year. The Cambridge Associates LLC U.S. Private Equity is an end-to-end calculation based on data compiled from 1,206 U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships, formed between 1986 and 2014. Federal Reserve Balance sheet represented as U.S. Treasury securities held by the Federal Reserve. The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs). The HFRI Monthly Indices (“HFRI”) are a series of benchmarks designed to reflect hedge fund industry performance by constructing composites of constituent funds, as reported by the hedge fund managers listed within HFR Database. Indexes are unmanaged and one cannot invest in an index. The Morgan Stanley Capital International Emerging Markets (MSCI EM) Index is a widely accepted unmanaged total return index of emerging stock market performance. The Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index is a widely accepted unmanaged total return index of foreign stock market performance. The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index. S&P 500 is one of the most commonly used benchmarks for the overall U.S. stock market, and is an index that tracks the performance of the largest 500 U.S. companies. U.S. Generic Government 2-Year Yield (U.S.GG10YR) is the index of U.S. government bonds with a 2-year maturity (2-year bonds or in general 2-year treasuries). It measures the generic government 2-year yield for U.S. issues of treasuries and provides the benchmark for various fixed-income instruments from corporate bonds to mortgages, U.S. Generic Government 10-Year Yield (U.S.GG10YR) is the index of U.S. government bonds with a 10-year maturity (10-year bonds or in general 10-year treasuries). It measures the generic government 10-year yield for U.S. issues of treasuries and provides the benchmark for various fixed-income instruments from corporate bonds to mortgages. It is not possible to invest directly in an unmanaged index.

DEFINITIONS
Correlations measure the relationship between the changes of two or more financial variables in time. A drawdown is the peak-to-trough decline during a specific recorded period of an investment, fund or commodity. Price-earnings ratio is the current market price of a company share divided by the earnings per share of the company and is a means for measuring the value of a company relative to history or another company. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular investment. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. The Dreyfus Corporation and MBSC Securities Corporation are subsidiaries of BNY Mellon. © 2016 MBSC Securities Corporation, 225 Liberty Street, 19th floor, New York, NY 10281.