

Getting a HANDL on Total Return

Over the last 30 years, the investment management industry has done a good job of helping investors save money and accumulate assets. But eventually, people reach the stage where they must live off those assets or decumulate them without running out of money during their lifetime. They need regular income to pay bills, especially if they're no longer working, and they need a strategy for managing the drawdown of their assets in a tax efficient way.

Traditionally, many people purchased annuities from insurance companies, which guarantee the owner an income stream for the rest of their life. But in a low interest rate environment, annuities don't pay well. Closed-end funds have had high distributions historically, but they're illiquid and can be expensive. Some people have chased yield in other categories such as high-yield bonds, options-based strategies and REITs.

"They all have a role in a portfolio, but we believe well-diversified portfolios will outperform concentrated portfolios on a risk-adjusted basis over the long-term," says Matthew Patterson, Co-Founder of Bryant Avenue Ventures. "We also think the ETF-of-ETFs structure is one of the best ways to deliver a diversified portfolio while paying out a tax efficient distribution."

Bryant Avenue Ventures developed three indexes to provide diversified exposure to asset categories that could generate yield and pay out a managed distribution that will approximate the expected total return over time. The [Nasdaq 5HANDL™ Index](#) has a target rate of 5%. The [Nasdaq 7HANDL™ Index](#) has a target rate of 7%. The [Nasdaq 10HANDL™ Index](#) has a target rate of 10%.

HANDLS indexes are split evenly between two diversified, balanced portfolios comprising 19 ETFs that hold around 19,000 individual securities. The Core Portfolio is allocated to 70% fixed income and 30% large cap equities. The Explore Portfolio holds the largest, most liquid and least expensive ETFs in 12 categories, and weights them using Nasdaq Dorsey Wright's Relative Strength (RS) Matrix. The RS Matrix compares the relative price movement of the 12 "Explorer" ETFs and ranks those with strong RS at the top, while the weaker ETFs rank in the bottom half. For the 12 ETFs, the stronger the RS, the higher the overweight in the "Explorer" portfolio. Among the more traditional ETF categories are growth and income equities, dividend equities, utility stocks, active fixed income, high-yield bonds, intermediate-term corporate bonds, mortgage-backed securities and Build America Bonds. It also contains alternative investments such as options-based strategies and master limited partnerships (MLPs), which have historically provided high levels of income.

Leverage is a key differentiator. The Nasdaq 5HANDL Index is unleveraged. The Nasdaq 7HANDL Index assumes 1.3x leverage, and the Nasdaq 10HANDL assumes a 2x leverage.

Strategy Shares currently offers two target distribution ETFs that track HANDLS indexes. The Strategy Shares Nasdaq 7HANDL™ Index ETF (HNDL) was launched in January 2018, and it has just over \$1.5 billion in AUM and a 5-star Morningstar rating. The Strategy Shares Nasdaq 5HANDL™ Index ETF (FIVR) was launched in December 2021 and tracks the Nasdaq 5HANDL Index.

Essentially, the HANDLS indexes put Modern Portfolio Theory to work in an ETF. The indexes are designed to achieve high risk-adjusted returns as defined by the Sharpe Ratio – 0.8 in this case – and, in the case of the 7HANDL and 10HANDL, leverage it up.

“Leverage makes it sound scary, but since the 7HANDL was launched, the annualized volatility has been less than 10%,” Patterson explains. “The S&P 500 is typically around 16%, and the aggregate bond market is around 4% or 5%, so it’s not an overly risky portfolio. And the 5HANDL is even less risky.”

The indexes’ rules require the portfolios to be rebalanced for optimality monthly. For example, that might entail taking the winnings in the [Invesco QQQ Trust](#), which tracks the [Nasdaq-100 Index®](#), and putting it into the bond market. The portfolio may not be optimal per se but based on 40 years of historical data and the results of Monte Carlo simulations, it has the best chance of maintaining the distribution over a 20-year retirement.

Financial advisors use HNDL and FIVR to give their clients an income boost. FIVR is targeted toward traditional investors looking for a safe return. Investors in HNDL are typically willing to take on a little extra risk for the 7% payout and the potential to double their money in about 10 years

Theoretically, individual investors could buy the ETFs in the HANDLS indexes on their own. But to rebalance the portfolio monthly, they’d have to do several small trades, and that could incur tax consequences. Moreover, to replicate HNDL, they’d have to set up a margin account with their broker which could incur substantially higher borrowing costs.

“It would be a lot of work for you or your financial advisor to do all that and produce this steady monthly distribution,” he points out. “Individual self-directed investors don’t want to have to do all that, but they love the idea of a package that does it all for them and provides a relatively high distribution compared to other options.”

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