While they may not be living larger after the 2008-2009 recession millions of today's retirees are definitely living longer.

According to LIMRA Secure Retirement Institute, a worldwide retirement research organization, “90 is now the new 70.” For a 65-year-old married couple, the odds that one will reach 95 is a flip of a coin.

Many members of this new generation of retirees may eventually transition their retirement nest egg from a career’s worth of wealth accumulation to 20 to 30 years of replacement paychecks in the form of reliable, periodic income from a risk-managed portfolio.

Among traditional investment choices are stocks, bonds and mutual funds. There is also a chance for participation in one of the fastest-growing asset classes: alternative investments. In their publication, “Trillion Dollar Convergence: Capturing the Next Wave of Growth in Alternative Investments,” McKinsey & Company noted that “money has continued to pour into alternatives… with assets hitting a record high of $7.2 trillion.”

Tracking advisor changes in portfolio allocation preferences, researchers at CaseyQuirk estimated that through 2017, alternatives and active international equity will lead all other asset categories.

In effect the alternative category has doubled in size since 2005, “with global AUM growing at an annualized pace of 10.7%, twice the growth rate of traditional investments,” McKinsey reported.

While many investment professionals consider the so-called “mainstreaming of alternative investments“ a positive trend that is beneficial to the average investor in the long run, others have called out, “Not so fast.” Supporters of alternatives assert that these non-traditional choices offer clients the same benefits that make them especially attractive to major institutional portfolios. Critics, on the other hand, point out that many of these products come with obscure fees and risks.

To examine this topic, The Wall Street Journal pitted two experts against each other. Klaus Baks, an associate professor of finance at Emory University, said, “For the past two decades, the endowments of Yale and Harvard have achieved average annual returns of 13.5% and 12%, respectively, beating the stock market with a now widely copied investment model that relies heavily on private equity and other alternative investments. Although the strategies used by university endowments are out of reach for most people, alternative offerings aimed at the retail market have proliferated in recent years and investors have embraced them.”

Baks added, however, that “These investments aren’t the right choice for every person. But when used correctly, alternatives can and do provide individuals with some of the same benefits that have made them attractive to institutions—specifically, diversification, a wider set of investment opportunities and access to leverage. For some investors, alternative asset classes can actually provide unique protection against specific risks. A business owner whose profits are heavily dependent on fuel prices, for example, could use an accessible, inexpensive hedge that shorts oil to help balance his or her personal portfolio.”
George Papadopoulos, a fee-only wealth manager, disagrees. “Alternatives are too risky and expensive for most individuals,” he countered. “Let’s be blunt here. The nature of the alternative structure tends to encourage managers to take risky leveraged bets to maximize returns. When you add trading fees, sales commissions, marketing costs, and leverage, you are starting with a big disadvantage that isn’t easily overcome.” He also expressed concerns about transparency, liquidity and tax consequences.

Concerns like those have spurred the U.S. Securities and Exchange Commission to closely examine fees, leverage and liquidity in the alternative investment world. Among the issues: whether funds are properly determining the value of securities they hold and disclosing risks to investors, examiners are expected to zero in on several areas, including whether fund managers are complying with the law when they determine the value of assets they hold, which would include derivatives and illiquid assets, such as investments in private start-up companies.5

**CAN ALTERNATIVES HELP OPTIMIZE A PORTFOLIO?**

For advisors and investors who undertake the necessary due diligence to evaluate the risk return characteristics of a specific alternative selection, such non-traditional choices may still be well-suited for inclusion in a wide range of investment portfolios, including IRAs.

Alternatives may aid in the portfolio optimization process by:

1. Helping to Temper Risk
2. Potentially Improving Return
3. Diversifying Liquidity
4. Targeting Investor Outcomes

**1. ALTERNATIVE STRATEGIES CAN HELP TEMPER RISK**

By definition, alternative investments differ from traditional asset classes – stocks, bonds and cash. All investments involve risk and possible loss of principal. While investors may initially be reluctant to invest in the unfamiliar, it’s important that investors, with the help of their CPA, attorney or fiduciary, consider risk in the context of the global marketplace.

Research from Robert W. Baird & Co., asserts that replacing 20% of a traditional portfolio (invested 60% stocks and 40% in fixed income) with a “broad mix of alternative products can reduce volatility by approximately 10% and, after all fees and expenses are accounted for, slightly increase returns.”6

<table>
<thead>
<tr>
<th>Traditional assets</th>
<th>Alternative categories</th>
<th>Alternative assets</th>
</tr>
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<tbody>
<tr>
<td>Stocks</td>
<td>Commodities</td>
<td>• Precious metals</td>
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<td></td>
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<td>• Oil and gas</td>
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<td>• Managed futures</td>
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<tr>
<td>Bonds</td>
<td>Real estate</td>
<td>• Residential</td>
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<td>• Commercial</td>
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<td>• Deeds of trust</td>
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<tr>
<td>Cash</td>
<td>Private investment</td>
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<td></td>
<td>• Private debt</td>
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<td>Structured financing</td>
<td>Structured settlement</td>
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According to a white paper from Invesco, *Preparing for Inflation with Alternative Strategies,* “Alternatives may offer a range of benefits, from helping lower volatility to potential improvement of risk-adjusted returns.”

Invesco added, “Alternative categories like commodities, real estate, infrastructure and master limited partnerships have historically demonstrated inflation-resistant properties during periods of expanding economic growth.” Before implementing alternatives in a portfolio, investors need to understand the strategies’ objective and whether they may be a substitute for, or complement to, their portfolio’s traditional investments.

### 2. POTENTIALLY IMPROVING TOTAL RETURN

Diversifying beyond the traditional investments like stocks, bonds and mutual funds has been a critical element in the investment selection process of institutions for many years.

When 20% allocations to a representative basket of alternatives were added to a traditional mix of stocks and bonds, the three blends that included the alternatives delivered better performance with less risk over a 25-year period, as shown in the chart “Alternatives and portfolio risk/return.”

### 3. DIVERSIFYING LIQUIDITY

From private placement products to managed futures mutual funds and everything in between, alternatives offer a wide variety of ways to vary their liquidity exposures.

Tom Karsten, President and Chief Investment Officer of Karsten Advisors, said his firm uses a variety of alternative investments, including non-traded REITS, venture capital, and direct private placements in the real estate and oil and gas industries. Mr. Karsten said his firm uses a mix of both liquid and illiquid investments. For clients with smaller portfolios, he prefers publicly traded alternatives. “Clients with portfolios in the $5 million-to-$10 million range,” he added, “have more opportunity for direct private placements, since liquidity isn’t as much of a factor.”

Fully liquid, non-correlated assets can help financial professionals provide their clients with a tool to let them access their resources without sacrificing a lot of return potential. Restrictions on liquidity to quarterly or annual redemptions can provide a money manager with a greater degree of control over managing the portfolio to increase return. Without having to maintain a substantial cash position to meet shareholder redemption demands, a manager can then make larger and more lasting commitments to a real estate or private investment strategy.
4. TARGETING INVESTOR OUTCOMES

Alternatives can offer different outcomes for different investors. By working with an advisor who knows alternative investments, investors can pursue such goals as:

- Diversifying assets away from riskier portfolio components to preserve capital
- Adding strategies that can act as a hedge in the event of a market crisis
- Deploying opportunistic allocations to an alternative asset when appropriate

For example, while one alternative strategy might provide a specific exposure to fit an investor’s targeted total return objective, another alternative strategy may be employed to off-set or hedge an existing portfolio position.

SHOULD ALTS BE CONSIDERED FOR IRAS?

As a record number of baby boomers enter retirement, the movement of assets from corporate-sponsored retirement plans to IRAs continues to soar. While many investors are choosing to map their investment allocations as closely as possible to the asset blends they had while working, fiduciary-minded advisors may want to take a more nuanced approach based on income requirements and capital preservation needs.

Holding alternatives in an IRA can be a cost-efficient way to increase portfolio diversification as well, potentially contributing to a higher, risk-adjusted total return.

By introducing your clients to alternative ideas when appropriate, you help underscore the increased value you bring to the relationship.

America’s Retirement Assets

Today, most of America’s retirement savings are in IRAs, ERISA-protected pensions or 401(k)-type plans. This means individuals increasingly need to make complicated investments decisions to secure their financial futures and their savings have fewer protections under the law.
### ALTERNATIVE INVESTMENT RESOURCES

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<thead>
<tr>
<th>Resource</th>
<th>Link</th>
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<tr>
<td><strong>The CAIA Association</strong>, a non-profit organization founded in 2002, is the world leader and authority in alternative investment education. The Fundamentals of Alternative Investments Certificate Program® is a natural extension of CAIA’s mission to provide solutions to specific market needs for alternative investment education.</td>
<td><a href="https://www.caia.org/about-caia">https://www.caia.org/about-caia</a></td>
</tr>
<tr>
<td><strong>The Center for Alternative Investments</strong> focuses on developing research and information, providing education and building community with respect to several areas of alternative investments including private equity, hedge funds, venture capital and real estate.</td>
<td><a href="http://goizueta.emory.edu/faculty/cai/">http://goizueta.emory.edu/faculty/cai/</a></td>
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<td><strong>Alternative Funds Are Not Your Typical Mutual Funds: FINRA Investor Alert</strong>, provides an excellent checklist for advisors to review with clients on how to determine an alternative offering’s fees, performance and much more.</td>
<td><a href="http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/MutualFunds/P278033">http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/MutualFunds/P278033</a></td>
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<td><strong>SEC: Due diligence process for evaluating alternative investments</strong> provides background on the SEC’s methodology and timetable on its planned examinations of alternative investments.</td>
<td><a href="http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370540687024#.U8OKA_IdWQo">http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370540687024#.U8OKA_IdWQo</a></td>
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<tr>
<td><strong>Equity Institutional maintains an extensive online library</strong> of materials related to alternatives and the multi-trillion dollar IRA market. Find out how to incorporate real estate, precious metals and other commodities into your client’s retirement plan strategies. Equity Institutional also maintains a full staff of experienced professionals, who can help answer your questions.</td>
<td><a href="http://equityinstitutional.com/tools-to-grow-your-business.aspx">http://equityinstitutional.com/tools-to-grow-your-business.aspx</a></td>
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Weighing the Alternatives:
Do Non-Traditional Investments Have a Place in an IRA?

ABOUT EQUITY INSTITUTIONAL

Equity Institutional (through Equity Trust Company) offers IRAs, qualified retirement plans and non-qualified custodial accounts for alternative and traditional assets. We service Registered Investment Advisors, registered representatives, broker-dealers, investment sponsors, precious metals dealers and other financial professionals. Equity Trust Company is one of the largest passive custodians of alternative assets with the goal to make alternative investing easy to help your clients achieve the diversification they are seeking. Perhaps the best reason to choose Equity Institutional is that we handle administrative details so that your focus can remain where it should be -- on your clients.

EXPERIENCE EQUITY INSTITUTIONAL


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1 LIMRA http://www.limra.com/Posts/PR/Industry_Trends_Blog/When_Planning_for_Retirement_90_is_the_new_70.aspx?blog=SRI
4 Reuters, 7/8/14 http://in.reuters.com/article/2014/07/08/financial-regulations-sec-alternatives-idINL2N0PJ0XB20140708
8 Investment News 11/14/13 http://www.investmentnews.com/article/20131114/FREE/131119955