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‘Alternative investments’ 101

The phrase ‘alternative investments’ has been in the media a lot lately. “Alternatives are outside the traditional world of stocks and bonds,” says Shawn O’Shaughnessy, a financial consultant* at Alvery Bartlett Group. “Examples include public, non-traded real estate investment trusts (REITs) and natural gas and coal.” Alternative investments can be uncorrelated or even negatively correlated to the performance of traditional investments, he explains.

These days, investors want to know there’s something concrete behind their investment, O’Shaughnessy notes. “Hard assets have traditionally provided a hedge against inflation, which may be on the horizon following the deflation we’re now experiencing,” he says. “Real assets providing stable dividends could outperform traditional investments over the next decade. We believe an investor’s portfolio can be better diversified if there’s an allocation to each of the five primary asset classes: stocks, bonds, cash, natural resource-based investments and real estate.”

But hasn’t real estate been hurt by the recent crash? “In the last decade, commercial real estate hasn’t experienced the same degree of overbuilding as residential, because the rents offered couldn’t keep up with the escalating cost of building,” O’Shaughnessy says. “Some commercial sectors were affected by easy lending standards and excess debt, which is why we recommend commercial real estate investments in which most have total portfolio leverage of 30 to 40 percent, or in some cases, no debt, such as natural gas, oil and coal-based investments.”

Alternatives are not as liquid as many other investments. “The benefits of liquidity are indisputable, but there’s an associated cost, often in the form of a higher purchase price, lower yield or higher risk profile,” he says.

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