

How Do You Use Alternatives?

Let us know your thoughts at magazine_editor@morningstar.com

"We have **incorporated alternatives into our discretionary model portfolios** as a new source for diversification in a high-correlation era. Further, the transparency and accessibility of alternatives in open-end fund formats has broadened the opportunity set for access with clients and more favorable liquidity and expense characteristics.

"We don't necessarily think that alternatives are better suited than traditional investments, but we do think they are a **good complement over longer cycles**. The role of alternatives has evolved within our portfolios, given the extremely low interest-rate environment and possibility of a long period of rising rates. Lower-volatility alternative asset classes have become an important area of focus for research and allocations given forward-looking return scenarios."

Melissa Joy
Center for Financial Planning, Inc.
Southfield, MI

"We define alternative investments as those with fund managers who have the flexibility to go anywhere they find value or opportunity, i.e., not constrained by the 'style box' or an associated index. With that being said, **we find managers that have the ability to hedge, hold cash, short, etc.** producing better annualized returns (on average) over a long period of time (five-plus years) with lower standard deviation and volatility compared to a "long only" or index offering.

"This is very important for most of our clients who are retirees and have little stomach

for market volatility after the 2000 and 2008 market cycles. The 'alternative or flexible' funds enable us to keep the client in the market without jumping in and out of cash and trading based on fear."

Bart M. Gadlage
Creative Financial Group
Atlanta, GA

"I like the idea of providing my clients access to non-correlative asset classes like alternatives. However, **I am currently providing that access through mutual fund portfolios.**"

Dave Loftus
Mainstreet Retirement & Investment Center
Lenexa, KS

"**We don't typically use alternative investments in our client accounts.** We feel that we can get the same exposure with traditional investments, or we aren't comfortable with the fees and lack of transparency."

Scott S. Hammond
First Advisors
Bar Harbor, ME

"I use alternative strategy mutual funds for **15%–20% of my clients' portfolios**. I use them for lower risk, lower volatility, and lower correlations to equity and fixed-income investments."

Bob Kleinman
Kleinman Financial Services
Port Washington, NY

Quick Poll (given Feb. 27, 395 responses)

1 Have you increased or decreased your clients' allocation to alternative investments since the 2008 financial crisis?

Increased	84.1%
Decreased	15.9%

2 Since the crisis, do you have more or less conviction that alternative investments are a necessary part of clients' portfolios?

Less	19.6%
More	80.4%

3 Have the prevalence and increased liquidity of alternative-investment vehicles affected your use of alternatives?

Yes	67.5%
No	32.5%

4 In your typical client's portfolio, how much is allocated to alternative investments?

<10%	46.1%
11%–15%	29.9%
16%–20%	14.9%
>20%	9.1%

5 What type of alternative strategy do you use most often in client portfolios:

Long/short	12.7%
Absolute return	23.0%
Precious metals	16.0%
Managed futures	18.4%
Currency	1.6%
Private equity	6.9%
Commodities	3.5%
Other	17.9%