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Signature Estate & Investment Advisors LLC
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“In today’s market, how should I diversify?”

By Paul Taghibagi

During the great recession even well-diversified investors could not find downside protection for a very basic reason: Almost every asset class suffered, resulting in a nearly unprecedented across-the-board drop in the markets. When panicked investors began to sell, the lack of buyers pushed prices down and values dropped even further.

While this was a rare situation, investors cannot be blamed for losing some faith in diversification as a protection against market fluctuations. Yet today, despite the severity of the 2008 drop, the markets have settled down and investors again see the wisdom of diversifying their portfolios.

In fact, many investors may wish they had held onto their diversified portfolios through the economic storm. Had they maintained a carefully constructed diversification strategy when the crash hit, chances are they would have recouped most of their losses by now.

Of course, tolerance for risk is always a factor—one that became all too real as investors confronted the volatility of the last few years. So how should an investor diversify beyond the typical stock and bond portfolio? Here are six alternative investment strategies to consider.

MASTER LIMITED PARTNERSHIPS

Also known as MLPs, these are typically pipeline partnerships that transport natural resources such as oil and natural gas. They pay out the majority of their income to investors and are currently delivering yields of 5 to 7 percent on average. While MLPs have some exposure to commodity prices, for the most part they derive revenues from the volume of products shipped.

MANAGED FUTURES

These are alternative investments on futures contracts that take long and short positions. The underlying futures may be based on equity indexes, commodities, foreign currencies or interest rates. A hedge against market fluctuations, they do not follow market trends and can generate positive returns in rising or falling markets. Managed futures have historically displayed very low correlations to stocks, bonds or interest rates; even a small allocation to these investments can reduce overall risk and volatility in a portfolio.

EMERGING MARKETS

These include what are known as the BRIC countries: Brazil, Russia, India and China. Despite their high-growth economies, there is risk in these emerging markets, which have governing bodies and financial rules different from those in the United States. To mitigate some of the specific risk of investing in emerging countries, we suggest accessing these markets via broader mutual funds or exchange traded funds. An ETF is traded on the exchange like a stock and is subject to market fluctuations, but it also means an investor can track its performance every day, any time of the day.

COMMODITIES

Commodities such as oil, gas, lumber, metals and coal provide a hedge against inflation and other forces because their performance is not related to the stock market. This does not mean they cannot be volatile, but when the stock market is flat, they can deliver a return.

PRECIOUS METALS

Although these are considered commodities, the price fluctuations of precious metals such as gold and silver do not correspond to other commodities. Precious metals provide a hedge against any economic, political or social crisis such as inflation, currency failure, war or a declining stock market.

REAL ESTATE INVESTMENT TRUSTS

REITs receive special tax consideration and offer investors high yields as well as high liquidity. REITs invest in and own properties, and their revenues are generated from their properties’ rents. To maintain their tax status, REITs are required to distribute 90 percent of their income—typically leading to very high yields.

A FINAL WORD

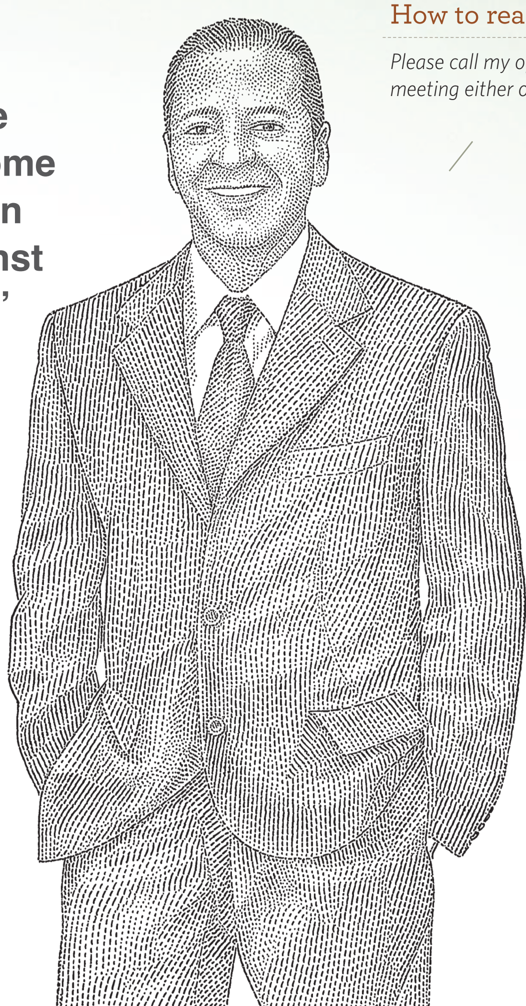
You should not diversify just to diversify. Working with your advisor, you need to devise a diversification strategy based on your risk tolerance and your income needs.

While these six alternative diversification strategies may not be suitable for all investors, allocating 5 to 30 percent of a portfolio may be appropriate.

How to reach Paul Taghibagi

Please call my office at 310.712.2323 to schedule a meeting either over the telephone or in person.

"Investors cannot be blamed for losing some faith in diversification as a protection against market fluctuations."
– Paul Taghibagi



MY HOBBIES ARE...

Coaching my daughters' soccer team

THE LAST BOOK I READ WAS...

War and Peace

IF I WEREN'T A WEALTH ADVISOR, I'D BE...

The CEO of a publicly traded company

About Paul Taghibagi

Paul Taghibagi, CFP, ChFC, has been in the securities industry since 1990 and is one of the four founding partners of SEIA LLC. Less than 10 years after its inception, SEIA reached the milestone of $1 billion in assets under management. Mr. Taghibagi graduated with honors from the University of California, Santa Barbara, with a bachelor of science degree in business economics, and he is a Certified Financial Planner. His emphasis is investment planning and wealth management for affluent individuals, foundations and corporations. Additionally, he is a member of SEIA's investment committee. Mr. Taghibagi lives in Pacific Palisades, Calif., with his wife and two daughters.

Assets Under Management
$360 million (Taghibagi);
$1.75 billion (firm, as of 9/30/10)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)

Largest Client Net Worth
$100 million

Financial Services Experience
20 years

Compensation Method Asset-based and fixed fees

Primary Custodian for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Investment advisory and money management services; estate, retirement, corporate benefits, income tax and insurance planning

Association Memberships
Financial Planning Association, National Association of Insurance and Financial Advisors and ProVisors

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