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Signature Estate & Investment Advisors LLC
Brian D. Holmes, MS, CFP®, AIF®, CMFC®, President and CEO

"The X's and O's of alternatives: Is my allocation playbook obsolete?"

By Brian D. Holmes

Asset allocation "strategies" have traditionally been limited to determining what percentage of a portfolio should be invested in stocks versus bonds. Bond yields around the globe are at historic lows. Rates are eventually heading higher, which will lead to interest-rate risk for bond holders' principal.

Domestic equities are arguably in the later innings of an already above-average bull market in terms of their length and returns. Consequently, "traditional" asset allocation is not what it once was, and high net worth investors are increasingly turning toward **alternative investments** ("alts") as a part of their overall long-term game plan. Important points about alts X's and O's include:

- One-third of high net worth investors are investing in alternatives and nearly two-thirds consider them a way to protect principal. Investors are accessing alternatives mostly through traditional, liquid and transparent means by investing in managed accounts, structured notes and products, ETFs, MLPs and mutual funds.[1]
- Large university endowments have utilized these investments for quite some time. In fact over 50 percent of these endowments are invested in alternatives.[2]
- Alternative investments are typically categorized in five ways: hedge funds, private equity, real estate, commodities and real estate.[3] It is helpful to scrutinize these five categories among numerous others and determine whether they are alternative strategies or alternative investments.

ALTERNATIVE STRATEGIES

Alternative strategies are typically event-driven, relative-value, global-macro or hedged funds in nature. A relative-value strategy would be a market-neutral or long-short fund. A global-macro strategy includes managed-futures funds. Equity alternatives are generally venture-capital private placements, which are distant cousins of mutual funds, are typically illiquid and offer considerable risk and return.

Hedged funds (not to be confused with "hedge" funds) might be hybrid securities that include structured notes or products. They are typically either a basket of securities and a stock or a bond, plus a derivative. Some of the more popular structured notes are bonds with principal protection (if held to maturity), with upside potential tied to market indexes, such as the S&P 500.

ALTERNATIVE ASSETS

Alternative assets are typically easier to understand. They fall under categories such as infrastructure, real estate, equity or commodities. The most popular infrastructure investments of the past few years have been MLPs, or master limited partnerships. MLPs combine the benefits of limited partnerships and the liquidity of publicly traded securities. They provide high tax-advantaged yields, mostly pertaining to the use of natural resources, including petroleum and natural gas, transportation and extraction. Think of them as "toll roads" for the transportation of energy. Examples include oil and natural gas pipelines.

REITs (real estate investment trusts) can be either publicly or privately traded and allow investors to participate in commercial real estate income without the burden of property management.

Commodity alternatives generally consist of energy, agriculture, base and precious metals. The most transparent way to invest in commodities is through the hundreds of ETFs (exchange traded funds) available. These investments are liquid, simple, transferable, transparent and cost-efficient.

IN CONCLUSION

There are tremendous differences among alternatives. Therefore, seeking an investment advisor experienced with the various complexities inherent within them is essential in order to determine the right mix to meet the unique needs of each investor. These investments are not only here to stay, but deserve their rightful place as an ever-increasing percentage of high net worth investors' portfolios.

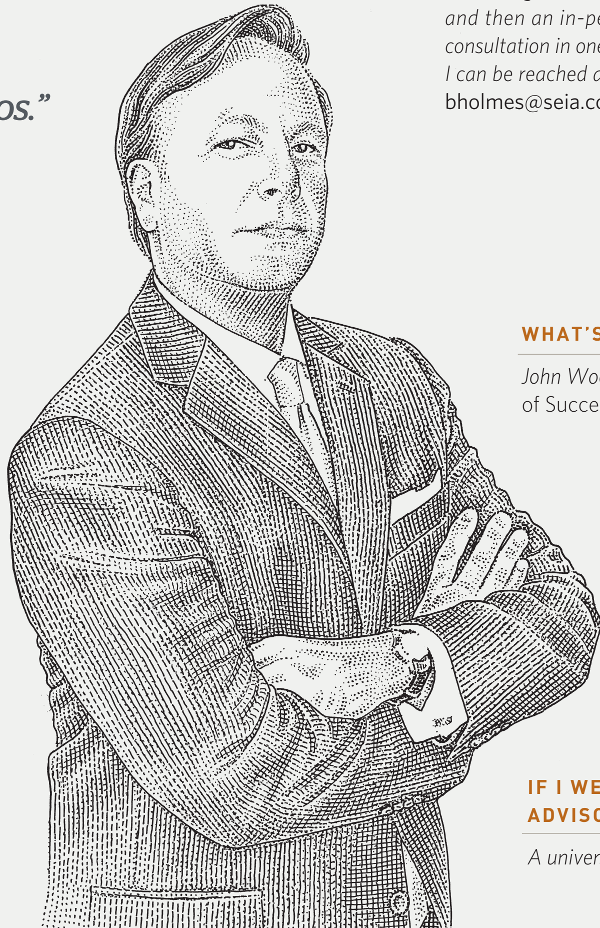
[1] *HNW Study, Mainstay Investments, Nov. 11, 2013.*
[2] *"Alternatives Reality," www.commonfund.org, January 2014.*
[3] Blackrock Investment Insights, *September 2012.*

"Alternatives deserve their rightful place as an ever-increasing percentage of high net worth investors' portfolios."

—Brian Holmes

How to reach **Brian D. Holmes**

I encourage a short initial conference call and then an in-person complimentary consultation in one of SEIA's four offices. I can be reached at 310.712.2323 *or at* bholmes@seia.com.



WHAT'S ON MY DESK…

John Wooden's Pyramid of Success

I NEVER LEAVE HOME WITHOUT…

Kissing my wife and children goodbye

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

A university professor

About Brian D. Holmes

Brian D. Holmes, MS, CFP®, AIF®, CMFC®, is the president and CEO of Signature Estate & Investment Advisors LLC. For eight consecutive years (2007–2014), Mr. Holmes has ranked in the top 25 in *Barron's* annual list of the Top 100 Independent Financial Advisors. He has been in the securities and insurance business since 1984 and is the managing partner of the Century City branch of Signator Investors Inc. Mr. Holmes is a past member of the Schwab Institutional Advisory Board and the UCLA Department of Economics Board of Visitors. He received his bachelor of science degree from the University of California–Los Angeles. A 28-year resident of Malibu, Calif., Mr. Holmes is involved with numerous charities throughout Southern California.

Assets Under Management
$4.8 billion (firm, as of 3/31/2015)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$5 million (Private Client Group)
$1 million (Investment Services)

Largest Client Net Worth
Confidential

Financial Services Experience
30 years

Compensation Method Asset-based fees

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

Professional Services Provided
Planning, investment advisory, money management and private client wealth management services; estate planning

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Website
www.seia.com

Email
bholmes@seia.com

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Signature Estate & Investment Advisors LLC | 2121 Avenue of the Stars, Suite 1600, Los Angeles, CA 90067 | 310.712.2323

Brian D. Holmes, MS, CFP®, AIF®, CMFC®
President and CEO

Signature Estate & Investment Advisors LLC
2121 Avenue of the Stars, Suite 1600
Tel. 310.712.2323

bholmes@seia.com
www.seia.com

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