

Alternative Investments in the Mainstream

What You Need to Know and Why

THE SITUATION

“Investors have lost faith in the fairness of the market and believe that the individual investor does not have a fair chance to succeed.”

Lost Wealth And Shaky Investor Confidence

The experts know it. You know it. Your clients know it.

The economic downturn of the past several years washed away wealth across the board, in every investment sector, every demographic category, and in every state in the nation.

Median household net worth sank nearly 39% between 2007 and 2010, according to the most recent Federal Reserve Bank “Summary of Consumer Finances,” effectively wiping out 18 years of gains. While the housing market collapse led the decline in wealth, retirement savings also took a hard hit, as the proportion of families with retirement savings dropped to just over 50 percent. And fewer than 7 out of 10 households had an individual retirement account (IRA) in 2012.¹ In an era when more people must rely on their individual retirement savings to supplement Social Security and other pension benefits, these are sobering statistics.²

People who do have retirement savings accounts are much less sure of themselves and their futures than five years ago. Nearly three-quarters (71%) of the respondents to a 2012 survey by Natixis Global Asset

Management said that volatility had shaken their confidence in the markets. Worse yet, 77% were worried about outliving their assets and retirement savings.

Wealthy investors (those with at least \$500,000 in investable assets) lost money and faith in the markets as well. A 2011 report by Cisco found that 37% of 1,000 people surveyed had “lost faith in the fairness of the market and believe that the individual investor does not have a fair chance to succeed.” Fully half of those not yet retired anticipate delaying their retirement; 18% of them by at least 5 years. Yet, 26% have more faith in their financial advisors than before the economic crisis,³ creating a window of opportunity for financial advisors to help their clients understand and engage in investments of all sorts.

More and more, investors are diversifying their portfolios in an effort to hedge against risk and market volatility in favor of more stable, reliable returns. The flight from risk is moving more investors into the alternative investment sector, in particular to tangible assets such as real estate.

¹ Investment Company Institute, *The Role of IRAs in U.S. Households’ Saving for Retirement, 2012*, <http://www.ici.org/pdf/per18-08.pdf>

² Bloomberg News, June 11, 2012; <http://www.bloomberg.com/news/2012-06-11/fed-says-family-wealth-plunged-38-8-in-2007-2010-on-home-values.html>

³ Cisco IBSG, *Winning the Battle for the Wealthy Investor*, Jeff Loucks, Robert Waitman, and Jürgen Ericsson, http://www.cisco.com/web/about/ac79/docs/Wealth_Management_PoV.pdf

THE OPPORTUNITY

A 2012 survey of more than 1,000 clients of The Entrust Group found that nearly 40% have more than three quarters of their retirement portfolio in self-directed investments.

Alternative Investments

While the term “alternative” might lead one to think that this is a small, inconsequential sector on the fringes of the investment world, it is anything but.

A recent McKinsey & Company report noted that as of December 2011, alternative investments accounted for a record-setting \$6.5 trillion of assets under management. That represents a five-year growth rate seven times that of traditional asset classes.⁴

To date, much of that growth has been the result of pension funds and other large, institutional investors moving into alternative investments. McKinsey reported, for example, that “alternative investments will account for a simple average of 28 percent [of institutional investors’] total portfolio assets by the end of 2013, up from 26 percent in 2010.”

And increasingly, retail investors and their financial advisors are awakening to the potential of alternative investments. Indeed, an advisor with less than \$50 million in assets is just as likely to use alternative

investments as an advisor with assets valued at \$250 million or more under management.⁵ Not surprisingly, the growing demand to invest in alternative assets is being fulfilled to a large extent through self-directed investing.

By 2012, Americans had approximately \$5.1 trillion invested in their IRAs.⁶ The McKinsey report estimates that by 2015, 13% of those IRA assets — or \$660 billion — will be in alternative investments. Even more impressive, the 13% placed in alternative investments is expected to generate nearly double its share (25%) of the accounts’ revenue.

This shift in how individuals and small businesses are investing for retirement and other needs coincides with changes in how they manage their accounts and where they go for advice and information. A 2012 survey of more than 1,000 clients of The Entrust Group found that nearly 40% have more than three quarters of their retirement portfolio in self-directed investments.

People who are independent enough to self-direct their retirement savings are also independent enough to want to explore alternative investments. Indeed, the desire to hold assets such as real estate, private placements, and precious metals in their retirement accounts is often a driving factor in an individual’s decision to self-direct.

Self-Directed Accounts Defined

The retirement industry has been dominated by custodians who are focused on a narrow spectrum of IRA investments, limiting you to stocks, bonds, CDs, and other traditional investments. While these retirement accounts may be right for some, they don’t offer the investment freedom of a [self-directed IRA](#). The term “self-directed” simply means that you, as an individual, have complete control over selecting and directing your individual retirement account investments. With a self-directed account, you can buy real estate, notes, limited partnerships, commercial paper, and many other types of assets. You make all decisions regarding your investments.

⁴ McKinsey & Company, *The Mainstreaming of Alternative Investments: Fueling the Next Wave of Growth in Asset Management*, July 2012

⁵ Capital Management Group, *How Tactical is Your Practice?*, Nov. 2012

⁶ Investment Company Institute, *The Role of IRAs in U.S. Households’ Saving for Retirement, 2012*, <http://www.ici.org/pdf/per18-08.pdf>

THE SOLUTION

“An investment in knowledge always pays the best interest.”

– BENJAMIN FRANKLIN

Enhance Your Understanding of Alternative Investing

While alternative investing started as a ripple, it is now a tidal wave.

Capital Management Group (CMG) surveyed attendees at the 2012 Financial Planning Association meeting in San Antonio, Texas. The survey shows that fewer than 1 in 4 financial advisors now use the traditional 60/40 stock/bond allocation in their clients' portfolios. Instead, they are using more “dynamic, tactical” asset allocation strategies to diversify. The vast majority (83%) now use tactical or alternative investments and are even more likely to recommend them to clients in 2013.⁷

The CMG survey also found that clients' lack of understanding of alternative investments is one of the biggest barriers to financial advisors applying this investment approach. The Entrust Group survey further supported this, with nearly 85% of survey respondents describing themselves as having only a beginner or intermediate familiarity with self-direction and related investment strategies. This creates tremendous opportunity for financial advisors to first educate themselves, and then their clients, about the broader world of self-directed and alternative investing. And individuals are open to learning from their

financial advisors: more than a third of the Entrust survey respondents first learned about self-directed investing from their investment advisor.

As you well know, your clients and prospective clients have nearly as much information at their fingertips – available with a swipe of a finger or the click of a mouse – as you do. But how reliable is that information?

Deepening and sharing your own knowledge of alternative and self-directed investing with your clients will strengthen your role as a trusted, knowledgeable, forward-thinking advisor. You will position yourself as a valued counselor, someone to rely on for objective, credible advice and recommendations. You also can use your newfound knowledge to demonstrate a more comprehensive – and up-to-date – understanding of the market to prospective clients. The result will be more satisfied and loyal clients who are more likely to refer others to you.

As Ben Franklin wrote, “An investment in knowledge always pays the best interest.” The best way to learn more about alternative investments, and to serve your clients' changing needs and expectations, is to rely on partners with specific expertise in the sector. And, when you are ready to help your clients diversify their portfolios, you want a company with the experience and knowledge to make it easy to add those assets to their portfolios. You need The Entrust Group.

Financial advisors can fill the knowledge gap

Among The Entrust Group's clients:

85% describe themselves as having beginner or intermediate familiarity with alternative investing

36% first heard about alternative investments from their financial advisor

Source: 2012 Entrust Group Customer Survey

⁷ MSN.com, Nov. 12, 2012; <http://www.cmgwealth.com/wp-content/uploads/2012/11/Tactical-Survey-Results-Summary-paper.pdf>

LEARN MORE

How to Learn About Alternative Investments and Self-Directed Accounts

More than 30 years ago, The Entrust Group pioneered self-directed retirement and tax-advantaged plans.



Growth in real estate investments reflects the recovering real estate market.
Source: The Entrust Group

“Entrust educated me about investing my qualified assets in powerful new ways. Since I’ve diversified some of my assets away from traditional stocks and bonds, the result has been outsized gains with very efficient tax treatment.”

— CRAIG P.
Entrust client since 2008

We provide account administration services and assist owners in the purchase of alternative investments that often are not available through banks and brokerage firms. Today, 75% of our clients’ portfolios are self-directed and 83% hold alternative investments in their portfolios.

Real estate, limited liability corporations (LLCs), and private placements are the top three alternative investments among The Entrust Group’s clients. [Real estate assets](#) can include income-generating rental property, commercial buildings, or REOs (real estate owned). As crowdsourcing grows in popularity, and the [Securities and Exchange Commission develops rules](#) making it easier for individuals to invest in small businesses in the U.S., the use of both LLCs and private placements as alternative investments in IRAs is certain to expand. Precious metals (gold, silver, platinum, and palladium, as permitted by IRS regulations) are another popular alternative investment. Recognizing the growth potential in this investment sector, The Entrust Group created the [Precious Metals Center](#) in 2012.

The Entrust Group is well-positioned to help financial advisors comply with recent changes in federal regulations related to alternative investments. Changes to Rule 206(4)-2 under the Investment Advisors Act of 1940 require RIAs (registered investment advisors) to use a “qualified” custodian for alternative investments. The Dodd-Frank Act of 2010 and the Private Fund Investment Advisers Registration Act of 2010 require the same of advisors to

private funds with at least \$150 million in assets under management.

The Entrust Group is not only qualified, we are experienced in all aspects of self-directed investing. We routinely handle 12,000 to 16,000 client transactions a month. We are your single-source provider for transaction processing, record-keeping, and reporting.

You also can rely on The Entrust Group for up-to-date training and continuing education about self-directed alternative investments. Our reports, webinars, and live events at our network of local offices can help you keep up with the rising tide of interest in alternative investments. Become part of our powerful Alternative Investments Solution program for financial professionals.

Our clients and business associates — financial advisors and planners, accountants, and attorneys — have confidence in The Entrust Group. Three out of four respondents to a recent survey would choose The Entrust Group again as their self-directed IRA administrator. And our business associates feel the same.

Talk with an Entrust Group professional today at 1-800-392-9653 or contact us at TEG@theentrustgroup.com