

Alternative Investments An Option for Diversification

CUSTODY SERVICES



Financial advisors are always looking for ways to improve their clients' overall portfolio diversification to meet long-term investment goals. For some investors, that calls for assets that can complement traditional equities and fixed income—alternative assets. Alternatives can play a key role in a well-diversified portfolio—especially in tax-advantage vehicles like IRAs.

Are you prepared to talk with your clients about alternatives?

The material in this E-book is presented for informational purposes only. The information presented is not investment, legal, tax or compliance advice. Millennium Trust Company performs the duties of a directed custodian, and as such does not provide due diligence to third parties on prospective investments, platforms, sponsors or service providers and does not sell investments or provide investment, legal, or tax advice.

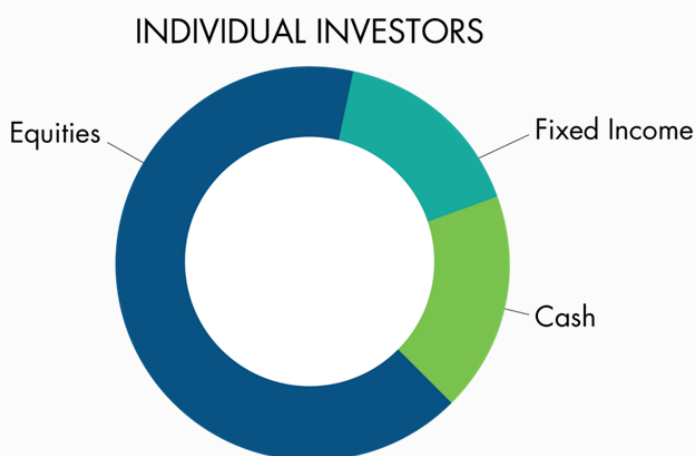
Opportunities Beyond Traditional Assets

As a financial advisor, you're already familiar with asset allocation models. Many models, however, stop at the three primary asset classes: equities, fixed income and cash. The 2017 American Association of Individual Investors Asset Allocation Survey reported that the average portfolio consisted of about 66% equity, 16% fixed income, and 18% cash.

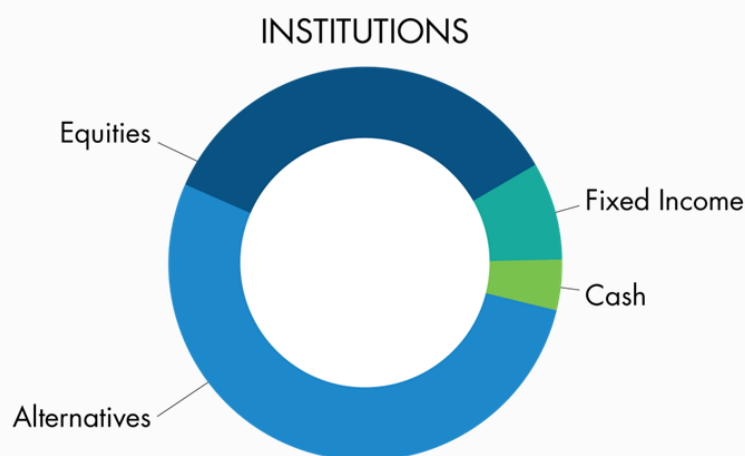
But when you look at large, institutional investors—college endowments or pension plans, for instance—their asset allocation models look quite different. According to a January 2017 report from the National Association of College and University Business Officers (NACUBO), university endowments report average asset allocations of 35% equity, 8% fixed income, 4% cash and 53% alternatives. More than half of the endowments' assets were invested in alternatives, including private equity, hedge funds, commodities and more.

Why do alternatives make up such a large portion of institutional portfolios? The investment managers for these large portfolios recognize that there are opportunities beyond traditional asset classes that can help them better optimize for risk and return.

By nature, these endowments are large—the average size was almost \$640 million according to NACUBO—and traditionally these asset classes have required higher investment minimums, putting them out of reach for most investors. Various investment platforms however, are making alternatives more accessible to individual investors, often times with lower investment minimums.



Source: American Association of Individual Investors, January 2017



Source: National Association of College and University Business Officers, January 2017

Investors' Interest in Alternatives

Alternative investments can offer more options for diversification. But lack of knowledge may be holding some investors back from using them to their full advantage.

High net worth (HNW) investors show high levels of interest in alternative investments that fall outside the traditional categories of stocks, bonds, and mutual funds.

But there is a significant gap between investors' interest and their ownership of these assets. For example, according to proprietary Millennium Trust research¹ 63% of HNW investors are moderately or extremely interested in owning real estate investments (exclusive of personal residences), but only 37% own them.



63% of HNW investors are moderately or extremely interested in investing in real estate.

37%

of HNW investors surveyed own investment real estate (exclusive of personal residences).

10%

hold investment real estate in an IRA or SEP-IRA.

The Knowledge Gap

One reason for this gap may be that HNW investors simply don't know enough about alternative investments. According to the same research:

- 42% of HNW investors have only slight or no familiarity with hedge funds
- 33% have only slight or no familiarity with private equity

1 / 3

of HNW investors have only slight or no familiarity with private equity



- 49% have only slight or no familiarity with other alternatives such as marketplace lending and crowdfunding

¹Source for all survey points, unless otherwise noted: May 2017 Millennium Trust survey of 500 individuals age 30 and over with household income of \$200,000+ who have invested in stocks, bonds or commodities through an IRA or SEP-IRA.

An Overview of Alternative Assets

At Millennium Trust, we define an alternative asset as one that is not publicly-traded, usually non-liquid and typically isn't priced daily. We've listed the most common alternative asset classes along with investors' current investment interest.

Real Estate

Investors interested in real estate can choose among:

- Investing directly in properties
- Pooling funds with other investors to purchase a property
- Purchasing shares in a real estate investment trust (REIT)

Real estate has a low correlation with other asset classes, so when the stock market is down, real estate can continue to thrive, making it a valuable diversification tool.

Survey Says

- 9 of 10 survey respondents say they are interested in adding real estate to their investment portfolios



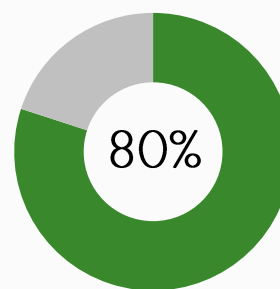
- 90% also say they don't hold real estate in an IRA

Hedge Funds

A hedge fund is a private pool of capital whose managers can buy or sell basically any asset. Although they resemble mutual funds, hedge funds are not regulated in the same manner and are limited to sophisticated investors, such as institutions and individuals with significant assets. They are popular with experienced investors who have substantial investable assets and are seeking additional returns and diversification.

Survey Says

- 80% of survey respondents are interested in investing in hedge funds



- Only 15% of survey respondents currently invest in hedge funds

Private Equity

Private equity resembles hedge funds, but is instead comprised of investments in private companies. Often these investments are in new companies with the potential for substantial growth. New investment platforms are making private equity accessible at lower minimums than was previously the case.

Survey Says

- Almost 90% of survey respondents are interested in investing in private equity
- Only 21% of survey respondents currently invest in private equity

Commodities

Commodities come in different categories, including:

- Metals
- Energy
- Livestock
- Agriculture

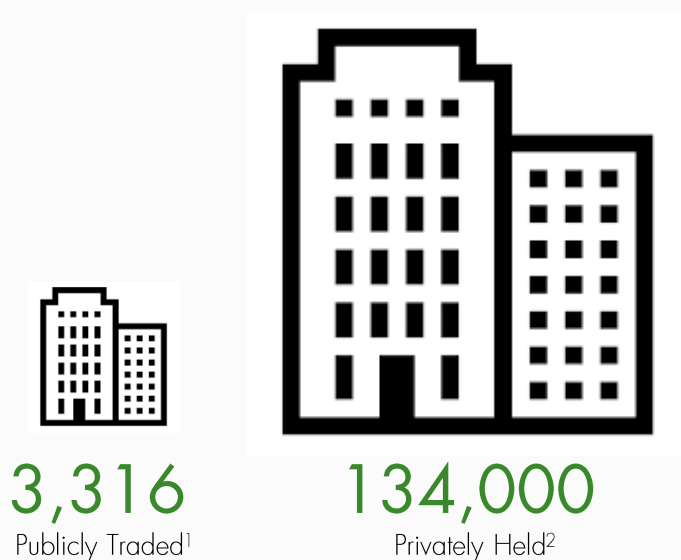
They tend to have low or negative correlation to traditional equity markets, so when markets are volatile or down, commodities can provide stability. Investors can trade commodity futures or use a managed futures fund.

Survey Says

- More than 90% of survey respondents are interested in investing in precious metals
- Less than 25% currently invest in precious metals

Public vs. Private Companies

While traditional managers are limited to investing in the public markets, private equity managers can invest in a much broader universe of companies



This example is for illustrative purposes only.

¹ Publicly Traded Companies listed on U.S. stock exchanges as of 12/2017. Source: Center for Research in Security Prices at the University of Chicago's Booth School of Business.

² Source: Hoovers, March 6, 2015 excludes Forestry; Mining; Depository Institutional Security and Commodity Brokers, Dealers, Exchanges, and Services; Holding and other Investment Offices, Museums, Art Galleries, and Botanical and Zoological Gardens, Private Households, Public Administration.

Marketplace Lending

Marketplace lending is an emerging tool that matches investors with borrowers via online platforms. It can include various types of loans including consumer, small business and education as well as real estate deals.



Survey Says

- Almost 80% of survey respondents are interested in investing in marketplace lending or crowdfunding
- Only 12% currently invest in marketplace lending or crowdfunding

Crowdfunding

Crowdfunding pools money from individuals to fund new business ventures. It can be debt-based, as with online lending, or equity-based, as with private security offerings. By pooling money, crowdfunding platforms allow individuals to invest at a lower entry point than typical private equity or debt deals.

Be Prepared to Talk to Your Clients About Alternatives

As a financial advisor, you are uniquely positioned to help your clients leverage alternatives to improve their overall portfolio diversification. Recent market volatility is an indicator of potential cracks in this unprecedented bull market. Equities have been outperforming expectations for years, but are your clients ready for when the market turns?

More than half of investors surveyed rely on financial advisors for information

- Almost two thirds of investors surveyed would be willing to invest up to 25% of their portfolio in alternatives
- But more than 25% report not discussing alternatives at all with their financial advisor in the prior year

Your clients are interested in alternatives. If you're not talking with them about alternatives, who is? **Continue reading for five reasons to talk to your clients about holding alternatives in a self-directed IRA.**

5 Reasons to Talk to Your Clients About Holding Alternatives in a Self-Directed IRA



Alternatives can play a key role in clients' overall portfolios—especially in tax-advantaged vehicles like IRAs. Fortunately, alternatives are becoming more accessible for more investors. Here's what you need to know:

1. Alternatives are growing

Alternatives are growing—with good reason. Investors are starting to see that alternative assets may help deliver sustainable, long-term returns. According to [PricewaterhouseCoopers](#), global alternative investments may grow to as much as \$15.3 trillion by 2020, up from \$7.9 trillion in 2013. The adoption of new technology is enabling this growth.

2. Your Clients are Interested

There's a good chance your current clients may be interested in alternatives. Investors are looking to alternatives to diversify their portfolios and potentially generate higher returns. But while investor interest in alternatives is high, relatively few have made the leap to investing in alternative categories. According to [Millennium Trust survey data](#), 37% of high-net-worth investors are moderately or extremely interested in investing in private equity, but only 25% have discussed it with their advisors.

Interest in tangible alternative assets like real estate and precious metals is especially high: 63% of investors show a high level of interest in real estate, and for precious metals that figure is 50%. These types of assets, which you can see, touch and feel, may be more familiar and comfortable options for clients still on the fence about holding alternatives in a self-directed IRA.

3. Opportunity for Risk Discussion

You're in a position to transform client fears about risk into excitement for the ways risk can be potentially managed to their advantage. Your clients may know that alternatives have a reputation for being risky, but what they should also keep in mind is that not all alternatives are the same.

With your expertise in their corner, risk transforms into a tool to gain exposure with an aim of growth. And, with the traditional markets more correlated than ever, alternatives can serve as a ballast during downturns that primarily affect stocks and bonds.

4. Reduced Barriers to Entry

Traditional barriers to entry are vanishing for independent advisors and wealth managers.

While larger financial advisory firms have long had access to a broad range of alternative investments, it has traditionally been more difficult for independent financial advisors or wealth managers to find a seat at the table. Technology is now leveling the playing field, allowing independent advisors to more easily access private investment opportunities in hedge funds, private equity funds, venture capital funds [and more](#). This is bringing more types of assets within reach for more investors.

5. Simplified Process

Administrative hassles associated with offering alternative investments can be sidestepped.

By taking care of administration and reporting, independent custodians work to simplify the alternative-investment experience for advisors and clients. Custodians understand the complexities of holding alternatives within retirement accounts. And they offer transparent quarterly reporting and real-time data to inform the decision-making of portfolio managers and account stakeholders.

Talk to your clients about how a self-directed IRA can be a vehicle for investing in alternatives.

Millennium Trust is an experienced independent custodian who can make your work easier.



Established in 2000, Millennium Trust is an expert provider of retirement and custody solutions committed to the evolving needs of advisors, financial institutions, businesses, and individual investors. Millennium Trust empowers clients with trusted expertise, exceptional service and access to a wide range of custody solutions. Whether you are managing alternative assets, investment accounts or retirement funds, we are uniquely qualified to service your custody needs.

mtrustcompany.com

Questions? Contact Us at [866.388.9419](tel:866.388.9419)

2001 Spring Road, Suite 700 | Oak Brook, IL 60523

Millennium Trust Company performs the duties of a directed custodian and does not sell investments or provide investment, legal or tax advice. © 2018 Millennium Trust Company. All rights reserved.

CS 145
05/18