

# Alternative Asset Defined

REVIEWED BY JAMES CHEN | Updated Jan 30, 2018

An alternative asset is an investment that does not conform to the traditional asset classes of stock, bond, or certificate. An alternative asset is usually used to describe more exotic investment options like works of art or bottles of fine wine, but the term applies to relatively common investments like residential rental real estate, as well. Due to the unconventional nature and questionable [liquidity](#) of some alternative assets, valuing an investor's holding can be difficult.

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## Breaking down an Alternative Asset

Alternative investments include antiques, [precious metals](#), rare stamps, coins, sports cards and other collectibles, in addition to private shares in startups, commodity pools, over-the-counter contracts, and so on. Essentially, an alternative investment is anything that you wouldn't hear a financial advisor at a bank steer a client toward. These investments are not considered mainstream and, as such, are not easily managed as part of a traditional investment portfolio.

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## Two Types of Alternative Assets

Alternative assets fall into two broad categories: things people collect and high finance. The things people collect covers all the physical assets like wine and rental properties where the long game is appreciation over time. Real estate should probably be in a class of its own, and can be a business in some cases and an investment in others, but it shares some qualities with the [collectible](#) classification. These alternative assets are illiquid for the most part, and they are hard to price until equivalents sell.

Without a sale, it is hard to gauge the [supply and demand](#) of the market. There is no central exchange pegging the value of a first edition of "The Amazing Spider-Man" or a mint-condition Honus Wagner trading card on a daily basis, so the value of your collectibles will

have to be guesstimated using trade publications and previous sales data—and even then the market can swing wildly if a collectible is found to be less rare than originally thought. Generally speaking, these types of alternative assets are traded by people with a passion for them beyond the profit motive. If you are an art collector, for example, you might not be making all your decisions based on ROI projections.

## The Journey from Alternative Asset to Mainstream

The second category, high finance, covers all the types of investments that were once only open to [sophisticated investors](#) and people with a lot of cash on hand. Shares of private equity and hedge funds, for example, were once limited through the exemptions they used, namely 3C7 and 3C1. However, the rise of mutual funds and funds of funds gives retail investors exposure to alternative assets they could never touch as individuals. There is no greater testament to the fact that alternative assets slowly move into the mainstream than the term “[publicly traded hedge fund](#).”

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### Alternative Investment

An alternative investment is a financial asset that does not fall into one of the conventional investment categories. Examples include private equity/venture capital, hedge funds, real property, commodities and tangible assets. [more](#)

### Collectible

A collectible is an item that is worth far more than it was originally sold for because of its rarity and/or popular demand. [more](#)

### What Are Liquid Alternatives?

Liquid alternatives are a class of mutual funds that use alternative investing strategies similar to hedge funds but with daily liquidity. [more](#)

### Investing Definition

Investing is the act of allocating funds to an asset or committing capital to an endeavor with the expectation of generating an income or profit. [more](#)

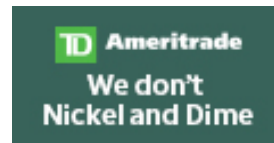
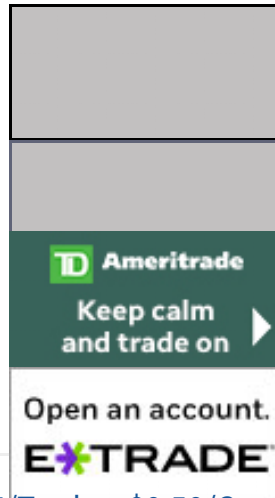
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Real estate is real—that is, tangible—property made up of land as well as anything on it, including

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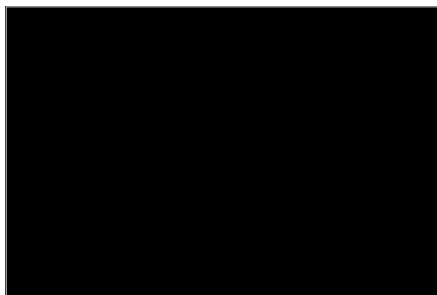
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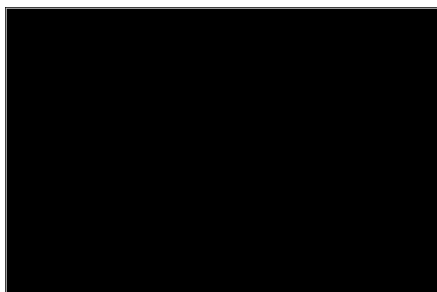
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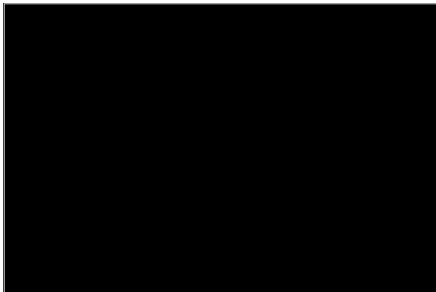
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