

# Alternative investment

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An **alternative investment** or **alternative investment fund** (AIF) is an investment or fund that invests in asset classes other than stocks, bonds, and cash. The term is a relatively loose one and includes tangible assets such as precious metals,<sup>[1]</sup> art,<sup>[2]</sup> wine, antiques, coins, or stamps<sup>[3]</sup> and some financial assets such as real estate, commodities, private equity, distressed securities, hedge funds, carbon credits,<sup>[4]</sup> venture capital, film production,<sup>[5]</sup> financial derivatives, and cryptocurrencies. Investments in real estate, forestry and shipping are also often termed "alternative" despite the ancient use of such real assets to enhance and preserve wealth.<sup>[6]</sup> In the last century, fancy color diamonds have emerged as an alternative investment class as well.<sup>[7]</sup> Alternative investments are to be contrasted with traditional investments.



A British 1 shilling embossed stamp, typical of the type included in an investment portfolio stamps.

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## Research

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As the definition of alternative investments is broad, data and research varies widely across the investment classes. For example, art and wine investments may lack high-quality data.<sup>[8]</sup> The Goizueta Business School at Emory University established the Emory Center for Alternative Investments to provide research and a forum for discussion regarding private equity, hedge fund, and venture capital investments.

# Access to alternative investments

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In recent years, the growth of alternative finance has opened up new avenues to investing in alternatives. These include the following:

## Equity crowdfunding

Equity crowdfunding platforms allow "the crowd" to review early-stage investment opportunities presented by entrepreneurs and take an equity stake in the business. Typically an online platform acts as a broker between investors and founders. These platforms differ greatly in the types of opportunities they will offer up to investors, how much due diligence is performed, degree of investor protections available, minimum investment size and so on. Equity crowdfunding platforms have seen a significant amount of success in the UK and, with the passing of JOBS Act Title II in early 2016, are now picking up steam in the United States.

## SEIS and EIS funds

Only available in the UK, SEIS funds and EIS funds present a tax-efficient way of investing in early-stage ventures. They work much like venture capital funds, with the added bonus of receiving government tax incentives for investing and capital gains tax relief protection should the companies invested in fail. Such funds help to diversify investor exposure by investing in multiple early ventures. Fees are normally charged by the management team for participating in the fund, and these fees end up totaling anywhere between 15% and 40% of the fund value over the course of its life.

## Private equity

Private equity consists of large-scale private investments into unlisted companies in return for equity. Private equity funds are typically formed by combining funds from institutional investors such as high-net-worth individuals, insurance companies, and pension funds. Funds are used alongside borrowed money and the money of the private equity firm to invest in businesses they believe to have high growth potential. In Europe, venture capital, buy-ins and buy-outs are considered private equity.

## Infrastructure as an asset class

The notion of "infrastructure as an asset class" has grown steadily in the past seven years.<sup>[9][10]</sup> But, so far, infrastructure development has been the preserve of institutional investors: pension funds, insurance companies and sovereign wealth funds, with very limited access to high-net-worth investors (except a few large family offices).

## Art

In a 1986 paper, William Baumol used the repeat sale method and compared prices of 500 paintings sold over 410 years before concluding that the average real annual return on art was 0.55%.<sup>[11]</sup> Another study of high-quality oil paintings sold in Sweden between 1985 and 2016 determined the average return to be 0.6% annually.<sup>[12][13]</sup> However, art galleries are sometimes ambivalent to the idea of treating artwork as an investment.<sup>[14]</sup> Art is also notoriously difficult to value and there are quite a few factors to bear in mind for art valuation.

# Investors

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The "Merrill Lynch/Cap Gemini Ernst & Young World Wealth Report 2003", based on 2002 data, showed high-net-worth individuals, as defined in the report, to have 10% of their financial assets in alternative investments. For the purpose of the report, alternative investments included "structured products, luxury valuables and collectibles, hedge funds, managed futures, and precious metals".<sup>[15]</sup> By 2007, this had reduced to 9%.<sup>[16]</sup> No recommendations were made in either report about the amount of money investors *should* place in alternative investments.

## Characteristics

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Alternative investments are sometimes used as a way of reducing overall investment risk through diversification.

Some of the characteristics of alternative investments may include:

- Low correlation with traditional financial investments such as stocks and bonds
- It may be difficult to determine the current market value of the asset
- Alternative investments may be relatively illiquid (see "liquid alts")
- Costs of purchase and sale may be relatively high
- There may be limited historical risk and return data
- A high degree of investment analysis may be required before buying



A Good Delivery bar, the standard unit of trade in the major international gold markets.

## Liquid alternatives

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Liquid alternatives ("alts") are alternative investments that provide daily liquidity. Liquid alternative investments should produce returns uncorrelated to GDP growth, must have protection against systemic market risk and should be too small to create new systemic risks for the market.<sup>[17]</sup> Hedge funds may be included in this category; however, traditional hedge funds may have liquidity limitations, and the term is usually used for registered mutual funds which use hedge fund strategies such as long-short equity investments.<sup>[18]</sup>

### United States

Liquid alternatives became popular in the late 2000s, growing from \$124 billion in assets under management in 2007 to \$310 billion in 2014.<sup>[19]</sup> However, in 2015 only \$85 billion was added, with 31 closed funds and a high-profile underperformance by the largest long-short equity fund at the time, Marketfield Fund.<sup>[19]</sup>

In 2014 there were an estimated 298 liquid alternative funds with strategies such as long-short equity funds; event-driven, relative value, tactical trading (including managed futures), and multi-strategy. This number does not include commodity income funds, tactical shorting and leveraged indexed funds.<sup>[18]</sup>

There has been expressed skepticism over the complexity of liquid alts and the lack of able portfolio managers.<sup>[20]</sup> One of the world's largest hedge fund managers, AQR Capital, began offering funds in 2009,<sup>[21]</sup> and grew from \$33 billion in assets under management (AUM) in 2010 to \$185 billion in AUM in 2017 driven in part by marketing mutual-fund-like products with lower fees.<sup>[22]</sup> As of 2016, AQR Capital was the largest manager of liquid alts.<sup>[23]</sup>

## See also

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- [Chartered Alternative Investment Analyst](#)
- [Philatelic investment](#)
- [Traditional investments](#)
- [Platinum as an investment](#)
- [Gold as an investment](#)
- [Palladium as an investment](#)
- [Silver as an investment](#)
- [Lithium as an investment](#)
- [Investment wine](#)
- [Diamonds as an investment](#)
- [Art valuation](#)

## References

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## Further reading

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- David M. Weiss (2009). *Financial Instruments: Equities, Debt, Derivatives and Alternative Investments*. Portfolio. [ISBN 978-1-59184-227-9](#).
- *How To Invest In Stamps And Coins*. Quick Easy Guides. 2008. [ISBN 978-1-60620-661-4](#).

## External links

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- *Portfolio Diversification benefits of Investing in Stamps* by Chris Veld, University of Stirling. (Incomplete first draft) <https://www.webcitation.org/5o9KY6xiF?url=http://www.lesechos.fr/medias/2008/0630/300277017.pdf>
- [What are alternative investments?](https://goldenmark.com/en/mysaver/alternative-investments/) (<https://goldenmark.com/en/mysaver/alternative-investments/>)

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