Current Trends in Alternative Investing

The markets at end of 2014 are setting up an interesting 2015. Over the last few weeks on Money Talks, you've heard warnings from many advisers concerned about where the public markets are heading. Are we setting ourselves up for the fear factor to sell high while the smart money waits to buy low? Thankfully there is now a clear alternative to the jitters of the public markets.

I'm a big believer in not worrying about being the smartest person in the room. What's more important is to be wise enough to hear the smartest idea in the room, in other words sifting the chatter from leading institutional funds and institutions. What are the current trends that the average investor needs to know to ensure a preservation or growth of their financial portfolio?

There's a trend over the last 2 years that many haven't recognized and that most advisers have failed to see or inform their clients. The growth of the alternative / private equity investments has been substantial over the last two years. In fact, according the Chair of the OSC (Ontario Securities Commission), Howard Wetston, more money was raised last year in Canada in the private markets than the public markets. This trend continues year over year.

Twenty years ago, a typical institutional fund had 2% - 5% weighting in private and alternative investments. That all changed when the Yale Endowment Fund was launched over 20 years ago by the legendary investor, *David Swensen*. Over the last 20 years, the fund has generated 13.7% annual returns compared to the S&P 500 of 8.8%. As of June 2012, the fund has over 66% of its funds in alternative and private investments. Many funds have been trying to catch up like the Canada Pension Plan (17.3%) and Ontario Teacher's Pension (23%). In fact, according to a Mercer survey in 2013, 38% of Canadian pension funds are investing in alternatives, compared to 25% of funds in 2010.

What other trends should investors to take note of? According to Byron Wien, Vice Chair of Blackstone Advisory Partners, people need to temper their expectations for 2015 with a best case scenario of single digit returns. The S&P 500 has surged 40% over the last two years with high valuations returning to 18 times earnings, which means expansion based on earnings alone is largely over. Despite strong economic news for the US economy, how strong does it have to continue to keep valuations at this high level?

How about wealthy investors, what are they doing in 2015? According to a survey by Tiger 21, an investor network of high net worth people with a minimum of $10MM in assets, the response was mostly that people were keeping with the status quo. The three assets that most wanted to increase in 2015 was cash, private equity and real estate.

If you want to look at allocating some of your portfolio towards private or alternative investments, look for an experienced adviser that can help you find what plan is best for you. To learn more, visit our website at www.triviewcapital.com.

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