NEW YORK LIFE INVESTMENTS

# Enhance Your Investment Mix

A GUIDE TO ALTERNATIVE INVESTMENTS

# Reimagining your portfolio for a new environment

In a landscape traditionally dominated by stocks and bonds, alternative investments offer an exciting and accessible way for investors to explore a diverse range of options that go beyond the conventional.

Recent research conducted by New York Life Investments found that education plays a pivotal role in empowering investors when it comes to their personal finances—especially with regard to women. For instance, less than 24% of the women surveyed felt confident in their knowledge of the market, and less than 33% felt comfortable deciding between investment options. We believe these results signify an opportunity to provide greater learning opportunities to all.

Therefore, whether you're looking to enhance your financial security, explore new opportunities, or simply want to understand more about alternative investments, this guide is designed to provide you with a foundational understanding. We'll demystify terms, introduce concepts, and help you navigate asset allocation considerations, ensuring you're well-equipped to make informed decisions and embark on your journey toward financial growth.

# Dispelling the most common myths of alternative investing

## 1 Only institutional and ultra-high net worth investors can access alternatives

It's a common misconception that alternatives are exclusively available to institutional investors and ultra-high net worth individuals. While it's true that some alternative investments may have higher minimum investment requirements, the landscape has evolved. Alternative investments are becoming increasingly democratized, making them more accessible to a broader range of investors, which we'll explore later in this guide.

## 2 Alternatives just means hedge funds

While a hedge fund is one form of alternative investment, it doesn't encompass the entire spectrum. Alternative investments include a wide range of options such as private equity, real estate, commodities, and more—which we'll explore in greater detail in the next section. Each of the asset classes has its own unique characteristics, risk profiles, and investment strategies.

## 3 Investors cannot access their money if they invest in alternatives

The liquidity of alternatives varies depending on the type of investment. Some alternatives, like private equity or real estate, may have longer investment horizons and limited liquidity. Others, like hedge funds, can be accessed through certain exchange-traded funds (ETFs) designed to track hedge fund performance. By using an ETF as the investment vehicle, hedge funds can become more accessible and liquid—thereby offering more immediate access to your funds.

## 4 Alternatives are too expensive

The cost associated with investing in alternatives can vary widely. Some alternatives may have higher fees, primarily due to the specialized expertise required for their management. However, other alternatives have lower fee structures. As the alternatives investment landscape has grown, many low-cost options, such as alternative ETFs and mutual funds, have become available to investors.

5

**Alternatives are more volatile and carry greater risk**

While some alternatives, like venture capital, can be highly volatile, others, such as certain real estate investments, can offer more stable returns. The key is to diversify your portfolio effectively, which can help mitigate *overall* risk. Alternatives can be valuable in enhancing portfolio diversification by providing low correlation with traditional asset classes.

6

**Alternatives are "sketchy"**

It's a common misconception that alternatives are inherently unregulated. Alternative investments are subject to regulatory oversight, and investors can use tools or partner with a financial advisor to conduct due diligence and ensure they are dealing with reputable investment managers and vehicles. While there have been cases of fraud and misconduct in the alternatives space, the same can be said for traditional investments. Proper research and the use of established financial institutions can help mitigate these concerns.

7

**Alternatives are not needed for additional diversification in a "traditional" portfolio**

The traditional 60% equity/40% income portfolio has been used by investors for many decades, and it has a proven track record of generating positive risk-adjusted returns over the long term. However, with limited asset classes, the 60/40 portfolio is less diversified and therefore may be less efficient compared to a portfolio that also includes alternative assets. Ultimately, you should assess all the options available to you and tailor your investment strategy to your specific financial goals, risk tolerance, and time horizon.

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# The basics of investing in alternatives

**More and more investors are turning to alternatives for reasons including portfolio diversification, attractive yields and returns, tax advantages, risk management, and volatility management.**

As alternatives grow in popularity and relevance, it is important to understand the fundamentals of the asset class because while alternatives can offer opportunities, they also come with their own set of risks and complexities. Investors can use tools and available services, or seek professional advice from a financial advisor, to conduct thorough research and assess risk tolerance before venturing into alternative investments.

### Alternative vs. traditional investments

Alternative investments are financial assets that do not fit into the conventional asset classes: equity, income, or cash. Traditional investments are publicly traded and more heavily regulated by various regulatory bodies. Alternatives tend to have higher management fees and are riskier, which is why they are typically aimed at institutional, high net worth, or accredited investors. However, with this increased risk and cost comes the potential for strong returns.

## Differences between alternative and traditional investments

| Traditional Investments | Alternative Investments |
|---|---|
| Strategies that invest directly in public stocks, bonds, and cash to make a return | Strategies that seek to find inefficiencies in public markets or investment in private, less-liquid assets |
| High liquidity profile | Potentially less liquid |
| Traded on public markets | Traded in both private and public markets |
| Returns are sensitive to the movements of global markets – driven by sources of returns that are like those of global equity and bond markets | Performance that is less sensitive to the movements of global markets – driven by diverse sources of returns |

Because they have different characteristics and return drivers, alternatives have a low correlation with traditional investments, giving them the potential to perform better than traditional investments during a market downturn. Incorporating alternatives into a portfolio can increase diversification and reduce risk.

# What is investment liquidity?

**Liquidity refers to how easily you can convert your assets into cash, determining how quickly you can sell your investments on the secondary market. Liquid assets can be swiftly transformed into cash without losing value or incurring substantial fees. However, liquid assets can be influenced by changing market conditions, causing a decline in their value.**

Another less recognized concern with liquid assets is their pricing, which is influenced by liquidity premiums due to the range of options available. This means that investors cannot expect compensation for added risk or reduced investment flexibility. The limited liquidity of alternative investments can be attributed to the absence of a centralized market and low demand for certain assets, such as antiques and stamps, in comparison to traditional investments.

Illiquid investments have their merits, as they tend to appreciate in value over time, can be relatively immune to inflation, and are not as influenced by day-to-day stock market volatility.

## Types of alternative investments

# Liquid

Depending on how a **hedge fund** is constructed, it can become more accessible and liquid. For example, by using an ETF as the investment vehicle, which seek to replicate the trading activity and investment strategy of hedge funds – investors can gain access to liquid hedge fund strategies that can provide the opportunity to buy or sell shares within a matter of days.

**Real Estate Investment Trusts (REITs)** are a company that owns, operates, or finances income-generating real estate. REITs pool the capital of numerous investors so that individual investors can earn dividends from real estate investments without having to buy or manage properties themselves.

**Commodities** are real assets comprised of tangible goods such as gold and crude oil that are often traded through a futures contract – a promise to buy or sell a certain amount at a specified price on a certain date.

# Illiquid

**Hedge Funds** are typically known for their lack of liquidity. However, it is dependent on how it is constructed (as noted to the left). Investors who choose an illiquid option may not be able to buy or sell at their discretion since lockup periods, for example, may reduce investor flexibility. But on the positive side, these limits to liquidity also may allow investment teams the capital stability needed to take advantage of market opportunities.

To gain access to more traditional, illiquid hedge fund strategies, investors typically need to be accredited.

**Real Estate** investing is when individuals buy residential, commercial, industrial real estate properties, or land as an investment.

**Private Credit** utilizes a range of strategies to lend, buy, and sell existing credit assets. They can consist of loans, bonds, and other credit instruments that aren't publicly traded (by banks for example) or issued.

**Private Equity and Venture Capital** investors buy and manage companies that are not listed on a public stock exchange to earn a profit when the business is sold.

# Why consider investing in alternatives?

Alternative investments seek to provide greater portfolio diversification and higher returns than traditional investments. We believe they are attractive because they have historically generated strong returns even in times of market uncertainty since they are generally uncorrelated to the stock market.[1] Some alternatives also offer tax benefits that are not provided in traditional investments.

## How to access alternative investments?

While most investors in alternatives are ultra-high net worth individuals and institutional investors, retail investors can also invest through mutual funds (open-end, closed-end, and interval funds) and ETFs. Different vehicles that offer more entry points conducive to retail investors are:

**Closed-end funds,** a type of mutual fund managed by a professional fund manager that issues a fixed number of shares through a single initial public offering (IPO) to raise capital for its initial investments.

**Interval funds,** a type of closed-end fund that is not listed on an exchange and periodically offers to repurchase a limited percentage of outstanding shares from its shareholders.

**ETFs,** pooled investment securities that typically track a particular index, sector, commodity, or other assets, and can be purchased or sold on a stock exchange.

### The risks of alternatives

Alternative investments, like all investments, have the potential for both gains and losses. It's important for investors to do their due diligence when researching and considering alternative investments.

These are a few risks to consider:

- Often limited to accredited investors (net worth of at least $1 million or an individual income of at least $200,000) and qualified purchasers who are allowed to invest in riskier securities that are not registered with financial regulators.
- Can be less liquid than traditional investments due to limited availability of buyers and lack of a convenient market. Sometimes investors must hold their money in the asset for five or more years.
- May have high minimum investment requirements, high upfront investment fees, and may have less available data and transparency about performance.
- Often have a higher level of risk or volatility and may lack a clear legal structure since they aren't required to register with the Securities and Exchange Commission (SEC).

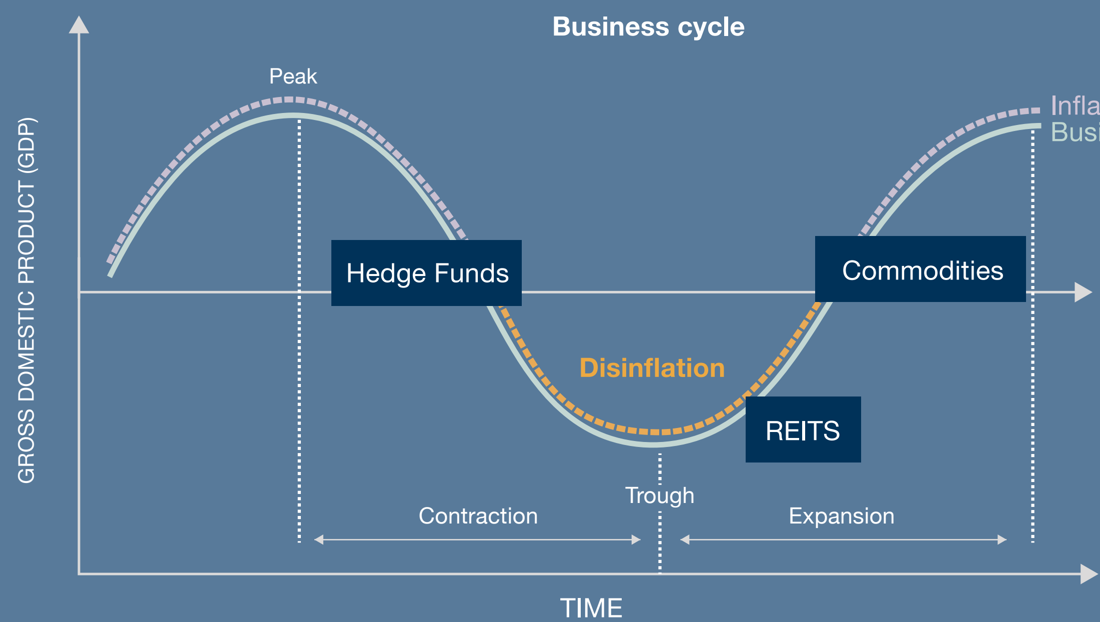
### Key factors for allocating to alternatives

Once you decide alternatives may be an interesting opportunity for helping achieve your investment goals—and meets your risk tolerance and time horizon—it's essential to consider various factors to make informed decisions. In this next section, we'll explore key considerations for allocating to alternatives, including portfolio sizing, the mix of alternative assets, and the choice between active and passive approaches. We'll also look at external factors such as the impact of market cycles on performance.

### Alternatives through the cycle

Before investors decide their allocation to alternatives, it's important to understand how they work within an economic context. Alternative assets, such as real estate, private equity, hedge funds, and commodities, can behave differently throughout the economic cycle compared to traditional assets like stocks and bonds. Since there are many different types of alternatives and their performance is influenced by various economic and market conditions, you may favor some types of alternative investments over others. Even though determining which tactical investment approaches to take along the economic cycle may not be appropriate for all investors, it may be suitable for others. Regardless of the approach that works best for you, it's important to speak to your financial advisor.

### How alternative assets might perform at different stages of the economic cycle




Source: Opinions of New York Life Investments, 2024. The chart above is intended for illustrative use only.

# Introducing alternatives to the traditional 60/40 portfolio

**To understand how an investment portfolio performs during market downturns, we have compared the 60/40 portfolio to an alternative option: a 50/25/25 portfolio.**

The 60/40 portfolio is structured with 60% of its assets allocated to stocks and 40% to bonds. This allocation aims to balance the potential for higher returns from stocks with the potential stability and income generation of bonds. On the other hand, the 50/25/25 portfolio is diversified differently. It consists of 50% in stocks, 25% in bonds, and an additional 25% distributed equally among REITs, hedge funds, and commodities. This allocation strategy introduces a broader spectrum of assets, including real estate, alternative investments, and raw materials.

The key distinction between these two portfolios lies in their asset allocation. One maintains a simpler mix of stocks and bonds, while the other adopts a more complex approach by including alternative investments to its investment strategy. Over time, we found that portfolios including an allocation to alternative asset classes have tended to provide diversification benefits during recessions and bear markets—historically providing investors with higher return and risk-adjusted return and lower drawdown—except in the most extreme of historical circumstances.

Both portfolios may have their advantages and drawbacks, and their performance during market downturns will depend on a variety of factors—including the specific assets within each category and the broader economic environment. Investors must carefully consider their risk tolerance, investment goals, and market outlook when selecting the portfolio that aligns with their financial objectives.

## Historical performance over market downturns: 60/40 vs 50/25/25

| Dot.com Bust (3/24/2000 - 10/9/2002) | 60/40 | 50/25/25 | Difference |
|---|---|---|---|
| Total return | -22.3% | -16.0% | 6.3% |
| Sharpe ratio | -4.5% | -3.4% | 1.1% |
| Drawdown | -24.2% | -19.4% | 4.8% |
| **Great Recession (12/1/2007 - 6/1/2009)** | | | |
| Total return | -21.6% | -24.8% | -3.2% |
| Sharpe ratio | -4.4% | -4.3% | 0.1% |
| Drawdown | -32.2% | -36.5% | -4.3% |
| **2022 Bear Market (1/3/2022 - 10/12/2022)** | | | |
| Total return | -17.2% | -14.8% | 2.4% |
| Sharpe ratio | -7.2% | -6.0% | 1.2% |
| Drawdown | -17.2% | -15.6% | 1.6% |

Source: New York Life Investments Multi-Asset Solutions, 2024. Stocks are represented by the S&P 500 Index. Bonds are represented by the Bloomberg US Aggregate Bond Index. REITs are represented by the Dow Jones Equity REIT Index. Commodities are represented by the Bloomberg Commodity Index. Hedge funds are represented by the Credit Suisse Hedge Fund Index. Total return is a measure that calculates the overall return on an investment over a specified period. The Sharpe ratio quantifies the excess return an investment provides compared to a risk-free asset for each unit of risk (volatility) it carries. Drawdown refers to the peak-to-trough decline in the value of an investment or a portfolio before it recovers to its previous peak. It is a measure of the maximum loss an investment or trader has experienced during a specified time period. Past performance is not a guarantee of future results. It is not possible to invest in an index. Definitions can be found at the end of this piece.

# Sizing your allocation to alternatives

### Identifying suitable alternative investments

When considering alternatives, it's crucial to identify options that align with your investment goals and risk tolerance. For this guide, we focus on three liquid alternative investment opportunities: commodities, hedge funds, and REITs. These options offer a broad spectrum of alternatives while maintaining liquidity—making them accessible to a wide range of investors.

### Allocating to alternatives

While there is no one-size-fits-all allocation percentage for alternative investments, a suitable range typically falls between 5% and 25% of your portfolio. As with traditional investments, investors should also consider whether an active or passive approach best fits their investment goals. We propose three hypothetical portfolio mixes tailored to different investor profiles:

1

### Moderate Investor

Designed to mirror the risk profile of a traditional 60/40 portfolio, this mix includes 50% stocks, 25% bonds, and up to 25% in alternatives—sourced with a 15% reduction from bonds and a 10% reduction from stocks.

2

### Aggressive Investor

Aimed at achieving higher expected returns with a slightly increased level of volatility, this mix features 60% stocks, at least 20% bonds, and up to 20% in alternatives—exclusively sourced from bonds. It's constructed to withstand equity volatility and can benefit from negatively correlated alternatives like commodities.

3

### Conservative Investor

Geared toward investors looking to reduce equity exposure while not relying heavily on bonds. This mix allocates 45% to stocks, a minimum of 35% to bonds, and up to 20% to alternatives—with the alternatives allocation primarily sourced from equities (15%) and bonds (5%).

Remember that the maximum allocation to alternatives is **a guideline,** and investors can adjust it based on their specific financial objectives and risk tolerance.

# The mix of alternatives allocation

### Customizing your allocation

In practice, the allocation of your alternative investments should be customized according to your goals and market conditions. For a moderate risk investor, the following allocation ranges can serve as a starting point:

1

**Hedge Funds**

A range of 1% to 12% allows for exposure to skilled fund managers and unique strategies. Typically, this allocation can potentially be sourced from equities.

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2

**REITs**

Allocating between 1% and 15% offers real estate exposure with the potential for income and capital appreciation—and can potentially be sourced primarily from equities.

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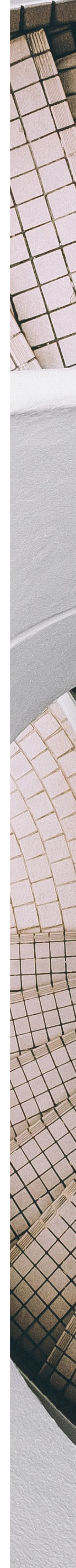
3

**Commodities**

Allocating between 1% and 7% can provide diversification and protection against inflation. You can potentially source this allocation primarily from your equities.

It's essential to adjust these allocations based on your individual preferences and the current economic and market environment.



## Consider professional guidance

For any investor considering a change to their investment portfolio, it's important to seek the **proper guidance** in order to make informed investment decisions.

Overall, speaking to a financial advisor is a wise next step, as they can help you navigate these decisions, assess your unique circumstances, and develop a portfolio that aligns with your financial objectives and risk tolerance.

### New York Life Investments

Our multi-boutique business model is built on the foundation of a long and stable history, which gives our clients proven performance managing risk through multiple economic cycles. With capabilities across virtually all asset classes, market segments, and geographies, our family of specialized, independent boutiques and investment teams allows us to deliver customized strategies and integrated solutions for every client need.

Our investment managers offer deep domain expertise and diversity of thought, generating deeper insights alongside a strong conviction to deliver better outcomes.

This piece includes allocation research from New York Life Investments' multi-asset strategists.

## Index Definitions

The **Bloomberg Commodity Index** is a broadly diversified commodity price index which tracks prices of futures contracts on physical commodities on the commodity markets.

The **Bloomberg US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities (agency and non-agency).

The **Credit Suisse Hedge Fund Index** is a broad-based, asset-weighted index of global hedge funds across multiple strategies.

The **Dow Jones Equity REIT Index** is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs.

The **S&P 500 Index** is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

## Definitions

**Accredited Investors** have a net worth of at least $1 million or an individual income of at least $200,000 and are allowed to invest in riskier securities that are not registered with financial regulators.

**Correlation** is a statistic that measures the degree to which two securities move in relation to each other. Correlations are used in advanced portfolio management, computed as the correlation coefficient, which has a value that must fall between -1.0 and +1.0.

**Diversification** is a risk management strategy that creates a mix of various investments within a portfolio in an attempt to limit exposure to any single asset or risk. Diversification does not protect against investment losses or guarantee any investment gains.

**Drawdown** refers to the peak-to-trough decline in the value of an investment or a portfolio before it recovers to its previous peak. It is a measure of the maximum loss an investment or trader has experienced during a specified time period.

**Ultra-High Net Worth Individuals** are people with a net worth of at least $30 million. This category is composed of the wealthiest people in the world who control a tremendous amount of global wealth.

## Important Disclosures

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

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1. Source: Opinions of New York Life Investments, 2024.

New York Life Investments commissioned its market research study in 2023, and it was conducted by RTi Research.

The quantitative study consisted of respondents sourced via an online panel and were required to be ages 25 or older, have total household investable assets of at least $100,000, and to be currently working with a financial professional. Beyond this, women respondents were required to be employed and involved in household financial decisions and male respondents were required to be married to/living with a woman breadwinner. The total number of respondents was 881. The qualitative study consisted of respondents sourced via an online panel among women ages 30+, working full-time, having over $250,000 in investable assets, at least sharing in the household financial and investment decision making, and working with a financial professional (male or female).

**For more information**
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