



The Greatest Investor of All Times - Groucho Marx

Forewarned is forearmed

Consider the proverb *“The understanding of possible dangers or problems gives one a tactical advantage.”* So, what’s today’s possible danger? . . . *Alternatives and the attempts to sell them to you as the next magical cure-all (just think, snake oil).*

Let me back up and attempt to put a bit of flesh on the bone. The story begins with interest rates . . . which bottomed out, back mid-day of 8/4/2020. They’ve been rising ever since, and it hasn’t been fun for bond investors, even those who restricted themselves to super-safe intermediate-term U.S. Treasury bonds . . . or even hyper short-maturity issues. These super-safe Treasury bonds (7-10 Year U.S. Treasury bonds) lost -16.6% since that date (through 5/8/2022), and this is even after all interest payments were included in that -16.6% loss.

So, what’s the future hold for interest rates? There exist rock-solid macroeconomic, societal, governmental, and environmental reasons to conclude that interest rates . . . won’t rise for 2, 3, or 4 years . . . instead, they’ll continue rising for 2, 3, or 4 decades . . . such a journey would be a pretty big deal. Result, it means that bonds play a far less attractive and quite different role within your investment portfolio. One that we haven’t experienced since the 1970s.

Industry response

The investment industry sees this quite probable future . . . as an opportunity and are reacting accordingly. The investment industry has numerous strengths and weaknesses, but those that’re most pertinent to this discussion include the industry’s quite remarkable ability to:

- Create new products that will quickly sell . . . and sell in great \$-volume
- Hide offensively large fees, deep inside their respective new product designs
- Encourage otherwise departing investors to stay put, by transitioning to these new higher fee products
- Weave incredibly attractive (but suspect) stories about prospective returns and risk mitigation

My expectation is that this burgeoning trend will take the form of *“the democratization of alternatives”* . . . bringing to the masses what had previously only been available to foundations, endowments, and the rarified ultra-high net worth (aka “fake news”). [Warning](#), don’t get taken in by the coming ever more clever storytelling . . . keep in mind the Pied Piper of Hamelin. There’s a well-known quip about alternative investments, one that’s been around for several decades. It goes something like:

“In 1986 there were 380 alternative investments, but only 80 were attractive, or otherwise worth investing in. Today, there are 3,800 alternative investments available. Unfortunately, there are still only 80 worth investing in.”

This quip is more than just a quick one-liner . . . it also well characterizes the reality of the situation. And that observation shouldn’t surprise or feel at all counter intuitive.



Just because we want it, doesn't make it so

How so? Alternative investment opportunity is relatively constant and steady over time . . . it really doesn't get larger or smaller from one decade to the next. But the number of alternative products, cravenly shouting for your attention, has increased ten- to twenty-fold. An analogy . . . just because the number of toothpaste brands available in your local grocery store, has increased ten-fold doesn't mean that dental hygiene has improved or that the cost/benefit ratio for individual dental care has improved. Unfortunately, the same is even more true for alternative investments. Yes, supply and availability are up, but the average benefit has fallen catastrophically. Yes, disastrously.

Let me be clear. The opportunity within alternative investments is every bit as large as it's ever been. It is truly bountiful. There is no diminishment. But it is now much harder to identify . . . and to confidently access. One is effectively hunting for the proverbial needle-in-a-haystack. I'm the strongest possible advocate for alternative investments, but executed with the required level of understanding, filtration, resourcing, and selectivity. Alternatives are the right solution and the needed solution in a multi-decade long era defined by ever rising interest rates, but make certain that your advisor has avoided running with the herd (just keep in mind the Pied Piper).

What to look for

Ask yourself several practical and common-sense questions:

- Who logically has the talent, resources, and experience to both identify and access the 80-remaining attractive/useful alternative investments?
- Who doesn't, and what do these false prophets look like (what are the attributes of these promoters)?
- Keep in mind that the 80 remaining/attractive alternative investments don't need your money or anyone else's . . . they only work with who they want to

What you want to be unusually skeptical of:

- Those who suggest that you can have it all
 - Liquidity
 - Tax efficiency
 - Low cost
 - Low account minimums
 - Uncorrelated investment
- If you run across such a claim, you know with certainty that it's false and abusive . . . a pot of gold at the end of the rainbow only exists in a fanciful childhood story

What might you want to look for . . . success within the alternative investment arena requires:

- A network of deep industry contacts, well versed with all-things alternatives
- A team of C-level professionals spanning all areas of the global investments arena
- Stepping away from what everyone else has access to . . . recall the rule of the 80
- If everyone has access to the exact same investment, you probably don't want it

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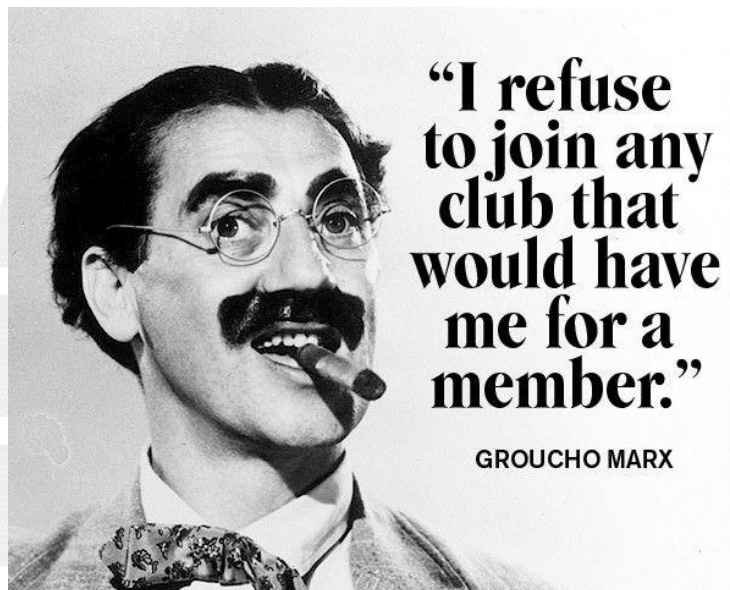
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The wisdom of Groucho Marx

When it comes to alternative investments, it's really remarkably simple and quite straight forward . . . like most things in life. The issue is best summarized by the popular Groucho Marx quote:

"I refuse to join any club that would have me for a member."

I don't know how to make it any clearer. This quote pretty much captures everything associated with the profitable use of alternative investments. Don't get me wrong. I am a tremendous, the strongest possible advocate for alternative investments. I use them myself and with my own clients. But they are difficult to access and very very few advisors have the talents, understanding, or structures to do so beneficially, prudently, and dependably.



Beware

In particular . . . be on the lookout for the investment industry's development of alternative investment supermarkets. This is a seriously problematic development. These supermarkets are growing rapidly in prominence and visibility. Such alternative sales and delivery venues are purposefully designed to make it extra easy for investment advisors to hawk questionable alternative products to the unsuspecting. These easy-access flea-markets are all about vending the next hot story, the next alternative investment that desperately needs your money . . . instead of the 80 alternative investment managers who do not. Ask yourself the simple question, which do you want? Keep in mind the common-sense wisdom of Groucho Marx.

Your financial advisor has a menu of possible investment solutions that are directly relevant to the perils mentioned above. But the solution that is most appropriate to your unique needs and circumstances can only grow out of a meaningful discussion with your advisor. Reach out to them, talk with your advisor.

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