Alternatives Move to Center Stage

By Editor Test *Wed, Mar 7, 2012*

Over the next five years, 55% of advisors see their allocation to alternative investments increasing "moderately" and 11.1% see it increasing "substantially," according to a Jefferson National survey.

In deciding to make alternative investments the chief attraction of its new Elite Access variable annuity, Jackson National Life acknowledged the growing interest in and use of alternatives among investment advisors.

"Alternatives" are investments that involve assets or strategies other than simply buying and holding stocks, bonds, or cash. Commodities such as oil or metals are alternative investments. So are "long/short" funds, "tactical asset management" funds, and "managed futures" funds.

The prices of alternatives characteristically do not move in the same directions as the prices of stocks and bonds. As a result, they potentially enhance portfolio diversification, reduce volatility and improve long-term returns.

Last September, just after a month of extreme stock market volatility, Jefferson National Life sponsored a survey of some 500 registered investment advisors (RIAs) and fee-based advisors about their use of alternative investments. Jefferson National sells a no-load, flat insurance fee variable annuity, Monument Advisor, that offers exposure to funds that are classified as alternative investments by Morningstar.

Although the fee-based advisors who responded to the survey aren't the target market for Jackson National's new annuity, their opinions can be assumed to reflect the growing interest in alternatives across the advisor market.

The survey showed that, over the next five years, 55% of advisors see their allocation to alternative investments increasing "moderately" and 11.1% see it increasing "substantially." About six in 10 believe that alternatives will become even more important than traditional investments in the future.

"Addressing portfolio correlations" was the reason most frequently cited for using alternatives, selected by 61.3% of advisors. "Filling portfolio allocations" was selected by 52% of advisors and "absolute returns" was selected by 48.6%. Advisors now consider alternatives "critical for true diversification and essential for producing a positive return regardless of the direction and fluctuations of the markets," Jefferson National concluded in its report on the survey.

Roughly three-fourths of advisors surveyed said they have 10% or more of their clients' portfolios allocated to global or international securities. Similarly, 74.2% have examined the use of high yielding/high dividend global equity securities in their clients' portfolios.

Just under half of advisors said their clients are willing to invest in alternatives, and 51.3% saying clients are hesitant to do so. About 82% of advisors attributed clients' reluctance to "lack of understanding" and about 50% attributed it to “lack of liquidity.”

More than 500 responses from participating advisors were collected online by Jefferson National on August 23, 2011, as part of the company’s series of surveys addressing issues important to RIAs and fee-based advisors.