Reputation of ‘Alternatives’ Survives the Crash

By Editor Test *Wed, Nov 18, 2009*

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“Institutions and advisors continue to view alternative investments optimistically, despite their questionable performance, correlation, and liquidity during last year’s global downturn as well as the high-profile scandals that rocked the hedge fund industry.”

So said Steve Deutsch, a database director at Morningstar, Inc., in a release about the second annual survey by his company and *Barron’s* of the way institutions and advisors view alternate investments such as hedge funds, real estate investment trusts, and absolute return funds.

“Institutions and advisors want the benefits of alternative strategies with the positive characteristics of traditional investments-low correlation with liquidity, absolute returns with transparency, and redemptions without restrictions,” Deutsch added. The survey found:

- More than 60% of institutions and advisors believe alternatives will at least equal traditional investments in importance over the next five years.
- Most of those surveyed expect 10% of their portfolios to be in alternatives over the next five years; one in four institutions expects alternatives to account for more than 25% of their portfolios.
- Institutions and advisors expect to increase allocations to hedge funds over the next five years, as they have over the last five years.
- Portfolio diversification, absolute returns, and exposure to different investment techniques, like arbitrage or shorting, were the top three reasons for investing in alternatives, as they were in last year’s poll.
- Lack of liquidity and transparency were a bigger concern this year than last.

Fewer institutions and advisors view real estate investment trusts (REITs) and commodities as alternative asset classes today than in 2008, the survey showed. Those polled tend to classify investments as “alternative” based on strategy, i.e. absolute return, rather than designation, i.e. mutual fund versus hedge fund.

Morningstar and Barron’s conducted the Web-based survey in late September through early October 2009; 89 institutions and 300 financial advisors participated. Additional results, including charts for 2009 Alternative Investment Survey of Institutions and Financial Advisors can be viewed online.