
To use more liquid alternatives, advisors need support

By Editor Test *Mon, Mar 18, 2013*

Many advisors express limited satisfaction with the performance of alternative investments in 2012, but most believe that alternative asset classes are important in constructing portfolios, according to a new report from Practical Perspectives.

Manufacturers and distributors of liquid alternative investments will need to provide more sales support to advisors if they want to expand the use of those investments beyond a “small group of heavy users.”

So says a new report from Practical Perspectives, an independent consulting and research firm that works with wealth management providers and distributors.

The report, “Financial Advisors and Liquid Alternatives 2013 - Insights and Opportunities,” examines the types of advisors who use liquid alternatives and what they look for when selecting alternatives.

The analysis reviews how advisors use mutual funds, ETFs, and variable annuity sub-accounts across a variety of alternative strategies, including:

- Real estate
- Commodities/natural resources
- Managed futures
- Multi-strategy
- Global macro
- Absolute return
- Long short
- Market neutral
- Hedged equity
- Managed volatility
- Currency
- Private equity strategies

According to the report’s authors, most advisors who use alternatives prefer liquid alternatives to enhance portfolio diversification and to manage portfolio volatility and risk. While many advisors use alternatives are used by many advisors, some use them much more than others.

“Only a small number of advisors have significant assets in liquid alternatives, with many others needing enhanced sales support for these products and strategies. It’s critical for product providers and distributors to understand how advisor use of liquid alternatives is evolving and to focus resources on helping advisors apply these solutions for clients,” said Howard Schneider, president of Practical Perspectives co-author of the report, in a release.

The analysis was based on some 330 online surveys conducted in January 2013 with financial advisors and

representatives, as well as interviews with advisors and industry executives. Full service brokers, independent brokers, financial planners, Registered Investment Advisors (RIAs), and bank/insurance representatives were interviewed.

Other highlights of the report include:

- More than 90% of advisors who use alternatives rely on liquid alternatives, but most advisors have less than \$10 million in total assets across liquid alternative strategies.
- Real estate and commodities/natural resources are the most popular alternatives among advisors, but at least seven other alternative strategies including multi-strategy, global macro, and absolute return are used by more than 60% of advisors.
- Advisors prefer to access liquid alternative strategies through mutual funds, although many also use ETFs or variable annuity sub-accounts.
- Only a few product providers can claim significant user “mindshare” among advisors.

Many advisors express limited satisfaction with the performance of alternative investments in 2012, but most believe that alternative asset classes are important in constructing portfolios. The detailed report includes 47 exhibits and is available for purchase by contacting howard.schneider@practicalperspectives.com

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