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Finding Alternatives to Traditional Investments

Financial Advisor Provides High Net Worth Investors with Alternative Investment Strategies

BUFFALO, MN (November 27, 2007) – The volatility in the stock market has unnerved many investors as they see the value of their portfolio value go up only to come back down, sometimes erasing the market's gains or even portions of their original investment. But according to financial professional, David Zumbusch, alternative investments can, in small doses, help to stabilize a portfolio.

"Alternative investments can be risky on their own," says Zumbusch. "However, when alternative investments are incorporated as part of a diversified portfolio, they act like a sprinkling of cayenne in an otherwise hearty stew. By itself, a big dose of cayenne might kill you – but a dash of cayenne can make the dish. That's why, for certain investors, it may be wise to include alternative investments in small doses. Certainly, the definition of 'small dose' is an individual assessment, but a good rule of thumb is to keep alternative investments at no more than 20 percent of a portfolio."

Like any other investment vehicles, alternative investments can be extremely volatile and offer no performance guarantees. As a result, only accredited investors, those with a net worth of $1 million or

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a household income of more than $200,000 per year, can and should consider alternative investments. Because of accredited investors' high net worth status, they typically have less need for liquidity and understand the risks associated with alternative investments. Theoretically, they are able to ride out market cycles versus selling because they're spooked and want to stop additional potential loss.

"The benefits to using alternative investments," Zumbusch continues, "is that they can help reduce market volatility. They also have the potential to help improve overall portfolio returns. Because alternative investments are not typically tied to the traditional stock and bond markets, they are less susceptible to those types of market conditions. In a diversified portfolio, they are oftentimes considered 'non-correlated' or 'low-correlated' assets."

While there are many kinds of alternative investments, Zumbusch believes that these seven types warrant a closer look: hedge funds, Tenants in Common (TICs), Real Estate Investment Trusts (REIT), oil and gas, equipment leasing, secured notes or loans and managed futures. Each of these has its own specific risks, including price fluctuation, liquidity (the risk that the investor won't be able to easily find a buyer for the investment) and concentration. Investors should always read the offering documents of any investment before investing.

Hedge Funds

Hedge funds are usually limited to 100 investors, of which at least 65 percent must be accredited investors. The securities in hedge funds are privately placed. As such, the securities can't be sold through a public offering, making them less liquid than publicly-traded investments. "Because there is a high threshold for entry into hedge funds, the investor is typically more sophisticated," says Zumbusch. "The investment management strategies are more sophisticated, too. For instance: more aggressive strategies are typically employed, like short-selling, arbitrage and derivatives. So, while there can be opportunity for increased profits, there can also be less downside risk, even though the hedge fund strategy is typically more aggressive."

Tenants in Common

A TIC is an investment that represents co-ownership of real estate by two or more investors. The TIC investors possess undivided interests in the property or designated interests of differing sizes. TICs have become popular because they are generally considered no-hassle, no-management investments. Additionally, TICs are flexible and allow for diversity in a portfolio. Because TICs are bundled, all of the necessary research and legwork has been completed. As such, they are ready for an almost immediate investment. "TICs are popular for those investors who wish to utilize a 1031 exchange when selling real estate as they are able to defer the taxes and receive an attractive dividend," says Zumbusch.

Real Estate Investment Trusts

REITS are similar to mutual funds in that they provide a way for individual investors to hold varied types of investments. But rather than stocks and bonds (typical mutual fund holdings), REITs hold real estate. Because real estate is tied to interest rates rather than the broader stock market, REITs tend to perform in a counter-cycle to the market. Because REITs are a different asset class, they can provide a great way to create a portfolio aimed at weathering market ups and downs. REITS can be traded or non-traded. Traded REITS are subject to the inherent risks of direct investment in real estate, including price fluctuation, liquidity and concentration risks.

Oil and Gas

Alternative investments in oil and gas are similar to real estate investments in that they too can be classified as a 1031 Exchange. Ownership is structured as a fractional interest similar to the way TICs are structured. Where oil and gas differs is that each fractional owner has the same rights as a single owner and can subdivide or offer for sale their ownership interest at any time on the open market. Investment in oil and gas may create predictable cash flow and an ability to participate in the future production with payment based on commodity prices over the long term.

Secured Notes or Loans

Secured loans have specific assets pledged as collateral, usually in the form of machinery and equipment, plant, inventory, pledges of accounts receivable and pledges of securities. Required collateral and how it is disposed under various circumstances are spelled out in the loan agreement. The lender charges interest on the loan. Investors can purchase shares in the loan profits through a limited partnership or direct participation program overseen by a professional money manager.

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Equipment Leasing

Many businesses need equipment but cannot afford to purchase it outright. In an equipment leasing arrangement, the lender buys and owns the equipment and leases it back to the business for a flat monthly rate for a specified number of months. Like leasing a car, at the end of the lease, the business may buy the equipment at fair market value keep leasing, lease new equipment or return the equipment. As with secured notes, investors can invest through a limited partnership or direct participation program, overseen by a professional money manager that pools investor capital to purchase the equipment and make the leases.

Managed Futures Accounts

Like a mutual fund, investors buy shares of a portfolio, in this case, a portfolio that uses government securities, futures contracts and options on futures contracts. Professional commodity trading advisors (CTAs) manage the account, increasing or decreasing positions based on anticipated profit. CTAs can be compensated on a performance fee basis, by charging for each trade made by account shareholders (the investors), and through annual management fees. Futures include metals (gold, silver), grains (soybeans, corn, wheat), equity indexes (S&P futures, Dow futures, NASDAQ 100 futures), soft commodities (cotton, cocoa, coffee, sugar) as well as foreign currency and U.S government bond futures. Futures can be negatively impacted by price fluctuations of the underlying commodities, devaluation of underlying currencies or fluctuations in the underlying market indexes.

Whenever considering alternative investment strategies, an investor should always consult with a financial professional, says Zumbusch. "Alternative investments can be tricky, so it's important to speak with a financial professional to ensure that you know not only the potential upside, but also the potential downside."

About Dave Zumbusch and Sportsmen Dream Financial

Dave Zumbusch is an independent financial planner and investment advisor representative with Securities America Advisors. As founder of Sportsmen Dream Financial in Buffalo, MN, he concentrates on helping sportsmen and their families attain personal financial objectives by educating them on matters related to risk tolerance, market exposure, long range planning, and individual

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circumstances that might affect their financial well-being. With so many pressures and choices today, Zumbusch believes an independent, objective approach is the way to manage money and improve the financial decision-making process.

Committed to a high standard of fiduciary excellence Zumbusch earned the CFP® mark of distinction from the CFP Board of Standards. Zumbusch is also a member of the Financial Planning Association, the largest organization of professionals dedicated to championing the financial planning process.

Visit www.sportsmendream.com for more information about Mr. Zumbusch and his company.

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NOTE:
When you need an experienced professional to speak on complicated financial topics in an easy-to-understand and engaging manner, please call Dave Zumbusch at Sportsmen Dream Financial.