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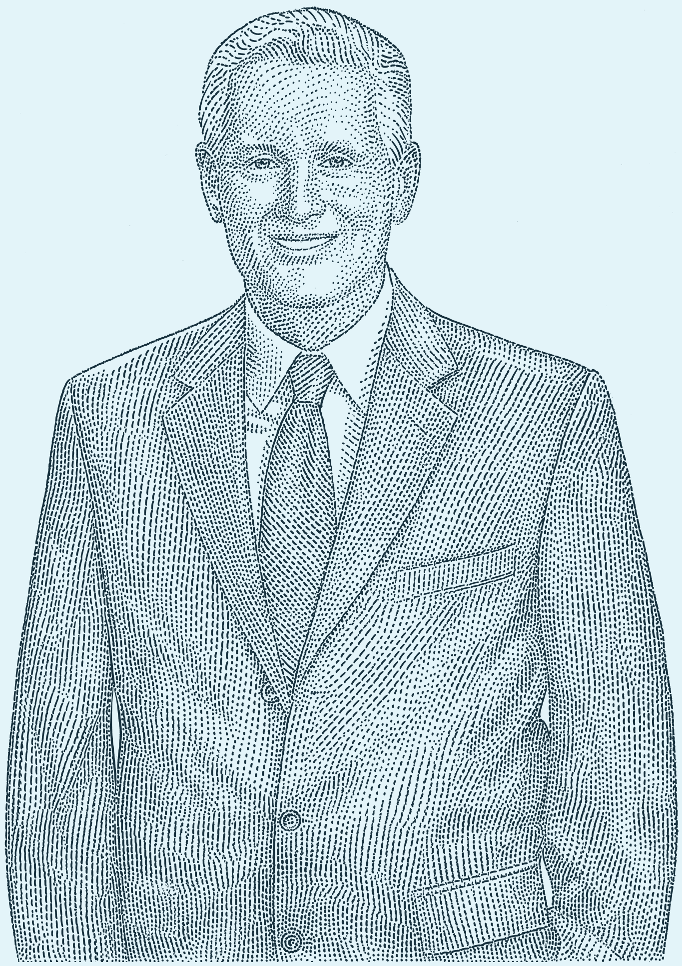
How do I determine which nontraditional assets are right for me?

BY BROOKS SLAUGHTER

WHAT MAKES A GOOD CLIENT...

Someone who is willing to share his or her problems, goals and aspirations and then partner with a trusted expert to realize those goals.



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President and CEO

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ILLUSTRATION BY KEVIN SPROULS

Stocks, bonds, real estate and cash have long been the mainstream investments.

In recent years, however, the number of dollars and investors moving into nontraditional assets has skyrocketed.

"Nontraditional assets" include such things as private equity, arbitrage strategies, private debt and macro event-driven strategies. While these can provide new investment opportunities, there are many factors to consider before adding nontraditional assets to your wealth-building plan.

Investigate the investment: An investor should never rely solely on advertised return numbers. Always ask, "How is this investment expected to make money?" The answer needs to make economic sense to you, the investor.

Do not believe an investment model based on a computer finding—for example, one that claims the price of a restaurant stock in Austin, Texas, is strongly tied to electric power usage in Tokyo, Japan. It would be better to know if the model draws its success from the manager's skill. What happens to the investment if that manager leaves? And, is it succeeding because it is in an underserved niche?

Know the risk/reward: The term "alternatives" is a very broad classification. Some assets can have a very high risk/reward expectation while others can be very conservative. What type of risk/reward is needed for this particular component of your portfolio?

Understand correlations in your investment portfolio: Noncorrelated and some negatively correlated investments in a portfolio help overall returns while reducing risk. Is this investment intended to do that with your particular assets? Even if that was the case in the past, will it continue to be so in the future?

Beware of investments that might be strongly positively correlated with your existing assets, such as residential real estate located in the same geographic area as your personal residence.

Evaluate your liquidity needs: Many alternative strategies capture higher return by tying up your money for many years, with limited ability to access it early. Make sure such illiquidity is not a problem in your overall picture.

Recognize limited transparency levels: Most alternatives have less transparency and reporting than traditional investments. Read all you can from the investment firm, but also seek collaboration from other sources. Ask for references and talk to the firm's current investors. Also ask questions.

> "An investor should never rely solely on advertised return numbers. Always ask, 'How is this investment expected to make money?'"

Does the firm employ a known and big-name auditor? Who prepares the firm's tax documents? When are its advisors available? Can you see the audit? Have the investments and manager been rated by third-party consultants? Are the investments on distribution platforms that have a vetting process?

Such evaluations are not easy, so consider hiring an advisor or consultant if you are not trained and competent in doing them yourself.

Recognize the tax implications: Many of these types of investments put out complicated tax documents. Be prepared to file an extension each year. You also will most likely need to hire a professional to prepare your return.

Assess the fees: Most nontraditional investments have much higher fees than their traditional counterparts. This generally is due to the extra work, reporting and other requirements of such assets. In all cases, you need to understand how the manager gets paid. But, regardless of whether an investment has high or low fees, the ultimate evaluation you make is your total return *after fees and taxes*, for the amount of risk you undertake.

Your wealth manager can help you find the answers to these questions as they relate to your situation, as well as provide guidance in adding the appropriate nontraditional assets to your investment mix. ●

ABOUT US

RICHARD P. SLAUGHTER ASSOCIATES IS A LEADING WEALTH MANAGEMENT FIRM, SPECIALIZING IN DELIVERING TAILORED STRATEGIES AS A FIDUCIARY AND ADVOCATE FOR HIGH NET WORTH INDIVIDUALS, FAMILIES AND BUSINESSES. Slaughter Associates constructs wealth management strategies around a financial plan, providing active, diversified and conservative asset management through its internal experts. These experts establish a collaborative relationship with clients and all their financial service professionals, helping clients navigate the financial complexities that high net worth individuals and families face. Founded in 1991 in Austin, Texas, by Richard P. Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. Through its subsidiary, RPS Retirement Plan Advisors, Slaughter Associates works with corporate clients by providing 3(38) fiduciary services, which help mitigate risk for plan sponsors and secure retirement readiness for employees. With offices in both Austin and the Dallas-Fort Worth Metroplex, Slaughter Associates has been recognized by the National Association of Board Certified Advisory Practices as a Premier Advisor and has been awarded Exemplary status for expertise in personal risk management. ●

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