

## Alternative Investments Find Opportunity in the Current Market

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While the dollar is struggling, commodity prices have skyrocketed, and the credit crisis drills further into the psyche of investors, navigating this market is beyond tricky, and potentially dangerous. Hoping to insulate portfolios from market volatility, many high net worth investors are seeking guidance about creative alternative investment vehicles.

Defined by Investment Advisor as “any investment outside of stocks, bonds and cash, alternatives are generally uncorrelated to the general market and are well-known for their potential to enhance portfolio diversification.” In addition to mitigating risk, some alternative investments are showing great returns by leveraging the opportunities available in a bear market. Below are two investments gaining traction with high net worth investors in the current market.

### First Trust Deeds

A group of savvy investors and advisors is finding double-digit returns by investing in sub-prime loans. Contrary to the current headlines, investors are utilizing a creative real estate investment vehicle called “first trust deeds”. The investment focuses on pools of owner-occupied residential real estate loans with at least 35 percent equity in the home as collateral.

Working with a direct private moneylender, these individuals are investing in pools of trust deeds that provide diversification, high monthly income, and the security of the properties having low “loan to values.” Loan to Value is an equation used by lenders to assess their risk in lending and return on investment. The equation reflects the percentage of the loan amount divided by the property value. The low loan to value characteristic is very important when making this type of investment. It allows the investor to sell the home in the event of a default to recoup the original investment and potentially profit in this scenario.

The high yields are driven by borrowers who are willing to pay premium interest rates for short-term loans that close quickly, with very little of the red tape demanded by conventional lenders. The current credit crisis has wiped

out many of the players in this field giving them the ability to be very selective with the loans.

Like all investments, first trust deeds represent a level of risk, but they also provide higher yields than traditional investments such as stocks and bonds and have historically provided non-correlated returns to traditional investments. The key to investing in first-trust deeds in this market environment is working with a highly skilled lender with extremely stringent loan acceptance and property appraisal criteria, low loan to values, and investing in pools of loans to provide diversification.

### Managed Futures

Many individual and institutional investors have been gravitating toward managed futures as another alternative investment that has the ability to profit irrespective to trends in the stock, bond and real estate markets.

According to the Dr. John Lintner of Harvard University and author of the landmark Lintner Survey, “Portfolios... in managed futures accounts show substantially less risk at every possible level of expected return than portfolios of stocks (or stocks and bonds) alone.”

Managed futures take either long or short positions on futures contracts such as metals (gold, silver), grains (soybeans, corn, wheat), equity indexes (S&P, Dow, Nasdaq 100 Futures), soft commodities (cotton, cocoa, coffee, sugar) as well as foreign currency and U.S. bond futures.

The ability to take either long or short positions efficiently in a wide variety of global markets is managed by a group of special investment professionals called commodity trading advisors. CTA's are required to register with the U.S. governments Commodity Futures Trading Commission and are highly regulated and offer more transparency than most hedge funds.

Access to the global commodities markets, increased advisor transparency, and an overall reduction in portfolio risk are drivers of the current interest in managed futures. There are recent studies supporting the strategy that adding managed futures to a portfolio of stocks and bonds

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can lower the overall risk and enhance returns.

A Goldman Sachs study covering a 25-year period concluded that by “allocating only 10 percent of a securities portfolio to commodities, investors can vastly improve their performance.” A Chicago Mercantile Exchange study reports, “Portfolios with as much as 20 percent of assets in managed futures yield up to 50 percent more than a portfolio of stocks and bonds alone.”

Additionally, Credit Suisse reported (through May 2008), the Managed Futures index returned 11.49 percent over the last year while the S&P 500 lost 6.70 percent. Since 1994, the worst month for the managed futures index was -9.35 percent compared to -14.41 percent for the S&P 500 index.

### Diversification

In today’s more global investment market, the definition of a well-diversified portfolio is constantly changing. Being “diversified” in stocks and bonds alone can no longer be considered a comprehensive diversification strategy. Modern Portfolio Theory suggests that holding a well-diversified portfolio of non-correlating investments reduces risk and can improve overall returns. In a down stock and bond market, alternative investments have the ability to step to offer smart investors an opportunity to increase their wealth and improve their portfolio performance.

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