

What Are Alternative Investments?

Beyond traditional assets, such as stocks, bonds and exchange-traded funds (ETFs), there is also the world of alternative investments.

As the name implies, an alternative investment is a type of financial asset that falls outside of the traditional investment categories. Private equity, hedge funds and collectibles are a few common examples of alternative investments.

How alternative investments work

Also referred to as “alternatives” or “alt investments,” the list of alternative investments is long and varied. Below are five common types of alternative investments.

- **Real estate** includes properties like residential apartments, office buildings and even timberland and farmland. Real estate investment trusts or REITs are also part of this category
 - **Commodities** include assets like precious metals, oil, natural gas and agricultural products
 - **Collectibles** are rare, specialty items whose value might grow over time. This category includes artwork, vintage wines, classic cars, custom watches, baseball cards, toys and comic books
- The approach to investing in fine art is different than investing in a hedge fund. Whatever the asset, investing in alternatives requires research and due diligence. With that being said, alternative investments share a few general characteristics:
- They're typically considered illiquid assets
 - They're often unregulated by the Securities and Exchange Commission (SEC)
 - They typically have a low correlation to standard asset classes
 - They can be difficult to value

For example, artwork is generally illiquid compared to a traditional asset like stocks, because it may take time to find a buyer. It can also be difficult to judge an artwork's value and will need an appraisal. Compare this to a stock, whose price is available almost anytime.

Why people invest in alternative investments

Some investors see alternative investments as a way to hedge against inflation and build wealth outside of the traditional financial markets. The opportunity for diversification and higher returns is also appealing.

- **Diversification.** Alternatives give investors an opportunity to diversify their holdings – outside of the stock and bond markets.
- **Potential high returns.** Because alternatives can give investors access to a broader set of investments and strategies, there is a potential to earn higher returns (compared to investing in traditional assets)

The bottom line – The world of alternative investments comes with a long and varied list of non-traditional assets and investment strategies to consider. Despite their level of risk and complexity, alternative investments can be appealing, as they offer the opportunity for some investors to further diversify their portfolios, try out new investment markets and potentially earn high returns.

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