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The Role of Alternative Investments in Portfolio Management

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KEYWORDS :

Introduction:

Alternative investments utilize a different approach to investing than do traditional equity or fixed income investments. This approach may involve holding both long and short positions in securities and holding private securities instead of publicly traded investments, and there may be derivatives or hedging strategies as well. Investors using alternatives may also have a goal of achieving a particular level of absolute return as opposed to relative performance versus an index. The successful implementation of an alternative investment strategy relies largely on investment manager experience and skill due to the broad range of investment opportunities. This is in contrast to managers specializing in specific asset classes such as commodities, real estate, emerging markets equity and high-yield fixed income. These non-traditional, or satellite, asset classes provide portfolio diversification due to low correlation with traditional asset classes, but like traditional investments, performance is primarily driven by asset class exposure as well as manager skill. Despite unique risks and considerations, alternative investments can be useful tools to improve the risk-return characteristics of an investment portfolio.

Literature Review: Incorporating Alternatives into Portfolios

We believe there are four primary considerations to keep in mind when incorporating alternatives into an investment strategy. Alternative Mutual Funds.Funds in which the managers are not constrained by traditional portfolio management methods. They have varying approaches, ranging from absolute return, long/short equity, broad mandate or "go-anywhere" funds and hedge fund-like strategies. Many of these funds also have a total return or absolute return objective. They provide access to non-traditional investment approaches while still providing investors with daily liquidity at reasonable investment minimums. Alternative investments were available only through private partnerships with high-net-worth requirements and limited liquidity, but they have become more accessible in the recent past. However, this accessibility comes with trade-offs that must be carefully considered. For example, lower-net-worth requirements and increased liquidity through the use of an alternative mutual fund versus a limited partnership may come at the price of higher fees or a more restricted investment approach.

Objectives:

There are several risks associated with alternative investments above and beyond the typical risks associated with traditional investments.

- Alternative investments, making a manager's investment ability more difficult to assess.
- Most alternative investment strategies have little to no focus on minimizing taxes.
- Investment objectives seeking further diversification through modest exposure to investments designed to have little or no correlation to the general equity and debt markets.

  All investors and should only be considered to compliment an already portfolio of traditional investments, such as stocks and bonds. The tax structure of these investments may be complex and there may be delays in receiving important tax information. Funds of hedge funds have many of the same risks and attributes of their underlying investments, such as the use of risky investment.

Research Methodology:

This section will give consideration to, among others the basic constituency of each of the identified asset classes, key characteristics of each of the asset classes and basic determinants of value. The study will aim these assets in the portfolio. Consideration, be it direct or indirect, will be given to the effects of changing investment the farmers and asset quality. Modern financial are highly developed and efficient, with market participants having access to seemingly endless amount of information related to an ever-growing asset selection.

- These "alternative" investments as viable addition to his/her portfolio.
- If the initial hypotheses are proven to be true, the reader's investment universe may broaden substantially, allowing for the better and efficient portfolios.
- This portfolio that includes all risk assets is referred to as the market portfolio management.
- This portfolio that includes all risk assets is referred to as the market portfolio because the market portfolio contains all risky assets, it is a completely portfolio management.

Summary:

Funds of hedge funds are not appropriate for all investors and should only be considered to compliment an already portfolio of traditional investments, such as stocks and bonds. The tax structure of these investments may be complex and there may be delays in receiving important tax information. Most advisors, journalists and the like will recommend a healthy balance between cash, equities and debt (bonds), many even recommend holding property in one's portfolio. The central question being addressed in this study in whether or not cash equities, bonds and property should be the only assets that investors consider, or are there other alternative that may hold significant benefits for investors in the form of increased.

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