BARRON'S

Why Advisors Are Embracing Alternative Investments

By Steve Garmhausen
Oct. 27, 2021 (excerpt)

Stocks, bonds, and cash, the three traditional pillars of an investment portfolio, are looking a little wobbly lately. Inflation-adjusted yields on cash are negative. Bonds are being squashed by interest-rate fears. And stocks are historically expensive. To meet investors' needs, financial advisors are increasingly turning to alternative investments such as real estate and private equity.

Alas, there's no playbook for using alts in investment portfolios. So Barron's Advisor asked five financial pros, how are you using alternatives now? It's the latest Big Q, our regular feature where we ask advisors and industry leaders for their best answers to challenging queries. …


David Kudla
Courtesy of Mainstay Capital Management

… **David Kudla, CEO, Mainstay Capital Management:** Our use of alternative strategies varies widely over time. During a bull market in stocks that may even be accompanied by rising bond prices, the need for alternatives may not be warranted at all. They can even be a drag on portfolio performance.

However, there are times when as much as 20% to 30% of a portfolio could be allocated wisely to alternative strategies. In the General Motors and Ford Motor Company 401(k) portfolios we manage for clients, our Real Asset Fund has been an anchor position for most of 2021. The Real Asset Fund in both 401(k) plans is made up of TIPS, REITs, commodities, natural resources stocks and infrastructure stocks. Most of these fit in the alternatives category.

With rising inflation, this is exactly the time we want to be holding real assets, or as we like to say, things that hurt when you drop them on your foot. In these 401(k) plans we have used these funds, which have double-digit positive returns in 2021 year to date, as diversifiers for our stock positions, versus the bond funds available that all have negative returns in 2021 year to date. …