Beyond the Headlines:

A Clear-Eyed Look at Alternative Investments

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The Allure of "Alternatives"

In times of market stress, it's natural to ask: *"Isn't there something better we could be doing?"* That question often leads to discussions about **alternative investments**—a broad category of strategies and assets marketed as different, safer, or smarter than traditional stock-and-bond portfolios.

Alternative investments are typically presented as ways to:

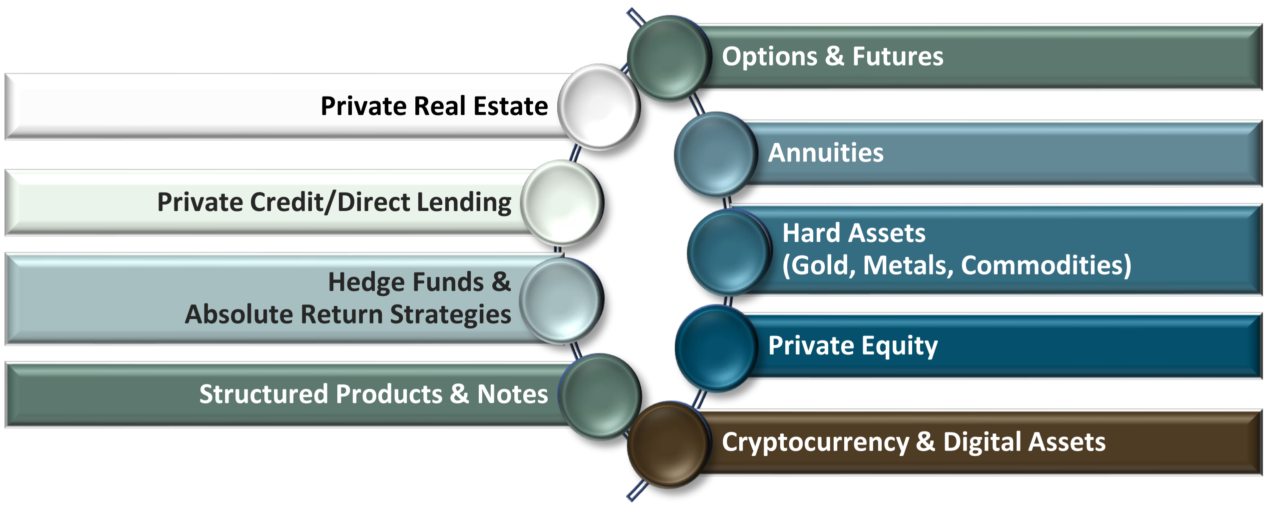
- Generate income when rates are low
- Diversify away from stock market volatility
- Protect capital during downturns
- Deliver returns uncorrelated to traditional markets

But behind the marketing, the truth is more nuanced.

At FVIM, we approach alternatives with **skepticism, not cynicism**. We believe in understanding them—not blindly adopting them—so we can help clients stay grounded in evidence-based, long-term investing.

What Are Alternative Investments?

"Alternative" doesn't mean better or worse. It simply means **outside the traditional categories of stocks** (ownership in companies) **and bonds** (lending to governments or corporations).



Overview of the Major Categories of Alternative Investments:

Category	What it is	Why people consider it	Risks
Private Real Estate	Direct or pooled investment in commercial/ residential real estate.	Income, inflation protection, perceived stability.	Illiquidity, high fees, leverage, property-specific downturns.
	Note: Most clients already have significant real estate exposure through homeownership.		
Private Credit / Direct Lending	Lending to businesses or projects outside of public bond markets.	Attractive yields, diversification from public debt.	Credit risk, lack of transparency, long lock-up periods.
Hedge Funds & Absolute Return Strategies	Complex pooled vehicles aiming to profit in up or down markets using leverage, shorting, derivatives.	Return potential independent of market direction.	High fees ("2 and 20"), opacity, inconsistent performance, illiquidity.
Structured Products & Notes	Pre-packaged investments offering customized risk/reward (often linked to equity indices).	Downside protection, defined outcomes.	Complexity, issuer credit risk, tax inefficiency, cap on upside.
Options & Futures	Derivative contracts used for hedging or speculation. Options give the right (but not obligation) to buy/sell at a price. Futures obligate the contract holder to buy/sell at a set date and price.	Hedging, leverage, speculation, income generation (e.g., covered calls).	High leverage, complex strategy management, magnified losses if misused.
Annuities	Insurance products that provide guaranteed income or downside protection in exchange for upfront cost.	Principal protection, lifetime income, tax deferral.	High fees, lack of transparency, illiquidity, complex riders.
	Note: Useful in very specific retirement planning contexts—not as investment substitutes.		
Hard Assets (Gold, Precious Metals, Commodities)	Tangible assets that can serve as stores of value.	Inflation hedge, safe haven appeal, physical asset exposure.	No income, high volatility, speculative behavior, storage/security concerns.
	Note: May play a modest role, but rarely create long-term wealth.		
Private Equity	Direct ownership in private companies, often through funds that invest in startups, growth-stage businesses, or corporate buyouts.	High-growth potential, portfolio diversification, access to private markets.	Illiquidity (7–10+ years), high minimums, manager skill dependence, valuation opacity.
	Note: Often produces strong institutional returns but not appropriate for most individuals. Public equities typically offer better liquidity, transparency, and diversification with fewer tradeoffs.		
Cryptocurrency & Digital Assets	Digital currency secured by cryptography and blockchain; includes Bitcoin, Ethereum, stablecoins.	Speculative returns, decentralized finance, hedge against fiat currency debasement.	Extreme volatility, regulatory uncertainty, custody/security risks, lack of intrinsic value.
	Note: Not recommended as a core holding. We are updating our Crypto Beyond the Hype education series to help clients evaluate risks, use cases, and the evolving landscape.		

Framing for Investors: Complement or Complication?

Alternatives are often sold as magic fixes. But the reality is:

- They're usually **less liquid**
- Often **more expensive**
- Frequently **more speculative**
- And in many cases, **less transparent**

They may play a tactical or niche role, but for most investors, they're not essential. In fact, the more time and attention they absorb, the more they can distract from what works: **owning great businesses, lending to high-quality borrowers, and staying disciplined over time.**

Why Most Alternatives Struggle to Deliver on Their Promises

The Marketing vs. The Reality

Alternative investments are often sold with confident narratives:

> "Uncorrelated returns."
> "Downside protection."
> "Institutional strategies now available to you."

The appeal is especially strong during market downturns, when emotions are high and the search for "something better" intensifies.

But the truth is: **most alternatives fail to consistently deliver the outcomes they promise**—and often introduce new risks, costs, or limitations that investors didn't fully anticipate.

1. They're Often More Expensive

Many alternative strategies come with significantly higher fees:

- Hedge funds commonly charge **2% annual management fees + 20% of profits**
- Structured notes and annuities include **built-in compensation layers** that reduce transparency
- Private offerings include **placement fees, performance fees, and illiquidity premiums**

These fees erode net returns and are rarely justified by consistent outperformance.

2. They're Less Liquid

Unlike public stocks or bonds, most alternatives:

- **Can't be sold quickly** without penalties
- May require **multi-year lockups**
- Don't offer **daily pricing or redemption**

This illiquidity becomes a problem when investors need flexibility or income—and can lead to emotional distress during financial uncertainty.

3. They Add Complexity Without Clear Benefit

Alternative investments often:

- Rely on **complex structures or derivative exposure**
- Require specialized knowledge to evaluate properly
- Come with **opaque performance reporting or valuation assumptions**

For many investors, this complexity undermines transparency, accountability, and trust.

4. They May Increase, Not Decrease, Risk

Ironically, some alternatives that advertise risk reduction actually:

- Use **leverage** to enhance returns, amplifying downside potential
- Take on **illiquid, credit-sensitive assets** that falter in economic stress
- Produce performance **tied to narrow outcomes or market triggers**

Put simply: if you don’t understand the risks, you’re likely absorbing more than you think.

5. They’re Often Redundant

Many clients already have **alternative-like exposure** without realizing it:

- Real estate exposure through **primary residence ownership**
- Business risk through **private company interests or concentrated stock positions**
- Fixed income through **pensions or annuities** already in place

Adding more complexity often duplicates—not diversifies—existing risks.

6. They Rarely Outperform Over Time

While a few alternatives have periods of outperformance, broad studies show:

- **Index-based equity portfolios** typically outperform most hedge funds over 10+ years
- Alternatives that do perform well often require **excellent timing** or **unique manager skill**—which are rare and hard to identify in advance
- **Public equities**, held through disciplined strategies, remain the **most reliable driver of long-term wealth**

Our Philosophy: Understand, But Don’t Overindulge

We don’t dismiss alternatives entirely. Some tools (like options overlays or annuities) may have limited, **specific roles** in a client’s investment plan.

But we believe:

- **Most investors don’t need them**
- **Most are better off avoiding them**
- **The complexity usually outweighs the benefit**

The Case for Equities: Owning Innovation, Capturing Growth

Why We Favor Equity Ownership

At FVIM, we believe that **owning great businesses around the world** is the most effective way to grow and preserve wealth over the long term. Equities—also known as stocks—are not just financial instruments. They represent **partial ownership in real companies** solving real problems and creating real value.

When you invest in equities, you're investing in innovation, productivity, entrepreneurship, and the global economy. That's why they've outperformed nearly every other asset class over time.

> *"Equities are the only asset class that fully harnesses the growth of human enterprise."*
> ***Nick Murray***

Historical Advantage: Equities vs. Everything Else

Equities have delivered:

- **Higher real returns** than bonds, cash, or commodities
- **Meaningful long-term growth**, despite short-term volatility
- **Effective inflation protection**, especially over 10+ year horizons

Asset Class	Long-Term Real Return (Annualized)*
U.S. Equities	≈ 6-7%
Bonds	≈ 2%
Cash	≈ 0.3%
Gold	≈ 1%

*Over multi-decade periods; inflation-adjusted; Source: Aswath Damodaran, NYU Stern School of Business

Volatility ≠ Risk

The market can be bumpy in the short term—but that's **not the same as losing money**. The real risk isn't temporary volatility; it's permanent loss of purchasing power.

A dollar sitting in cash may feel "safe," but it's silently shrinking in value every year.

Equities, by contrast, give your money a chance to grow fast enough to **keep up with rising costs and increased longevity**.

What Makes Equities Unique?

- **They Compound**: Reinvested earnings, dividends, and growth generate exponential returns over time.
- **They Evolve**: Companies adapt. Markets rotate. Capitalism adjusts to new technologies, behaviors, and regulations.
- **They Reflect Human Progress**: Innovation—from software to healthcare to energy—shows up in company earnings long before it appears in GDP statistics.
- **They're Transparent and Liquid**: Unlike many alternatives, public equities offer real-time pricing, regulatory oversight, and easy rebalancing.

Emotional Resilience Required

> *"The key to making money in stocks is not to get scared out of them."*
> ***Peter Lynch***

Owning equities is simple—but not easy. It requires the ability to stay invested when headlines turn negative. It asks for discipline during periods of volatility.

That's where thoughtful portfolio design, a long-term plan, and honest conversations come in. Our job as advisors is to help clients **focus on what works,** not chase what's shiny.

The Role of Bonds (with Realistic Expectations)

We still believe **bonds have a role**—but that role must be understood in context:

- They offer **stability and income**, especially during equity drawdowns.
- But over long periods, they **struggle to keep pace with inflation**.
- And in rising rate environments, they may **lose value**, especially longer-duration holdings.

Bonds are not growth tools. They're a **buffer**—a way to match time horizons and smooth volatility for near-term spending.

Why We Stay Centered on Equities

- We trust in capitalism, innovation, and human progress.
- We've seen the evidence across history and geography.
- We believe the reward for long-term equity investors is worth the short-term noise.

Alternatives may tempt investors with promises of protection, but most can't replicate what owning businesses has historically done for wealth: **compound it meaningfully, preserve it against inflation, and align it with human advancement.**

Final Thoughts: Simplicity, Evidence, and Ownership

In an investment world filled with complexity, hype, and distraction, we believe the strongest path forward is built on timeless principles:

- **Own great businesses** through equities—because they harness innovation, growth, and compounding.
- **Use bonds selectively** for stability, not growth—and with realistic expectations.
- **Approach alternatives with a clear eye**, not a hopeful one—because most introduce more cost, risk, and confusion than benefit.

When fear spikes and markets fall, it's tempting to chase new strategies. But time and again, disciplined investors who **stay the course**—with a plan rooted in ownership, simplicity, and patience—are the ones who succeed.

At FVIM, we don't chase complexity. We build portfolios with purpose.

Core Takeaway: Equities are how you invest in human progress. Bonds offer balance. Alternatives may distract. Clarity, evidence, and discipline remain your greatest advantages.

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