Advisors Need Alternatives to Protect Their Livelihood

The selfish reason you need alternatives is that our industry is under attack from three well-funded adversaries. First, the "fin-tech" industry supported by Silicon Valley wants to replace you with a robot. They are making strides in trying to accomplish that. In fact, they are doing so well that, ironically, your firm has probably been down in the basement at night, designing a robot to replace *you* as well! Second, the government – through their attempted DOL ruling – has clearly signaled that it seeks to regulate how you charge for your services. Third, the money management industry with zero-cost ETFs and free trades is trying to eliminate you. If any other industry was facing threats such as these, it would undoubtedly be on your "sell" list. However, ten-years into a stock/bond bull-market, our industry is frequently too content to consider the implications of these adversaries.

The smart reasons to use alternatives are well documented.

First, there is a healthy body of research that recommends you should be adding low correlating alternatives to a traditional 60/40 stock/bond portfolio. The thinking is that by following this advice, you can offer your client a better risk and return profile; so that they may end up with larger portfolios.

To highlight the second smart reason to use alternatives, please consider the following questions: Why does your firm suggest an allocation to alternatives? Why do institutional allocators like university endowments, pension funds, sovereign wealth funds, as well as family offices allocate over $1Trillion to alternatives?

Most advisors do not allocate significantly to alternatives. Instead, they rely on other plans to fight both our industry's adversaries and the inevitable future corrections in stock and bond indices. Many of these advisors are our friends and we remind them of Mike Tyson's advice:

"Everyone has a plan until they get punched in the face."