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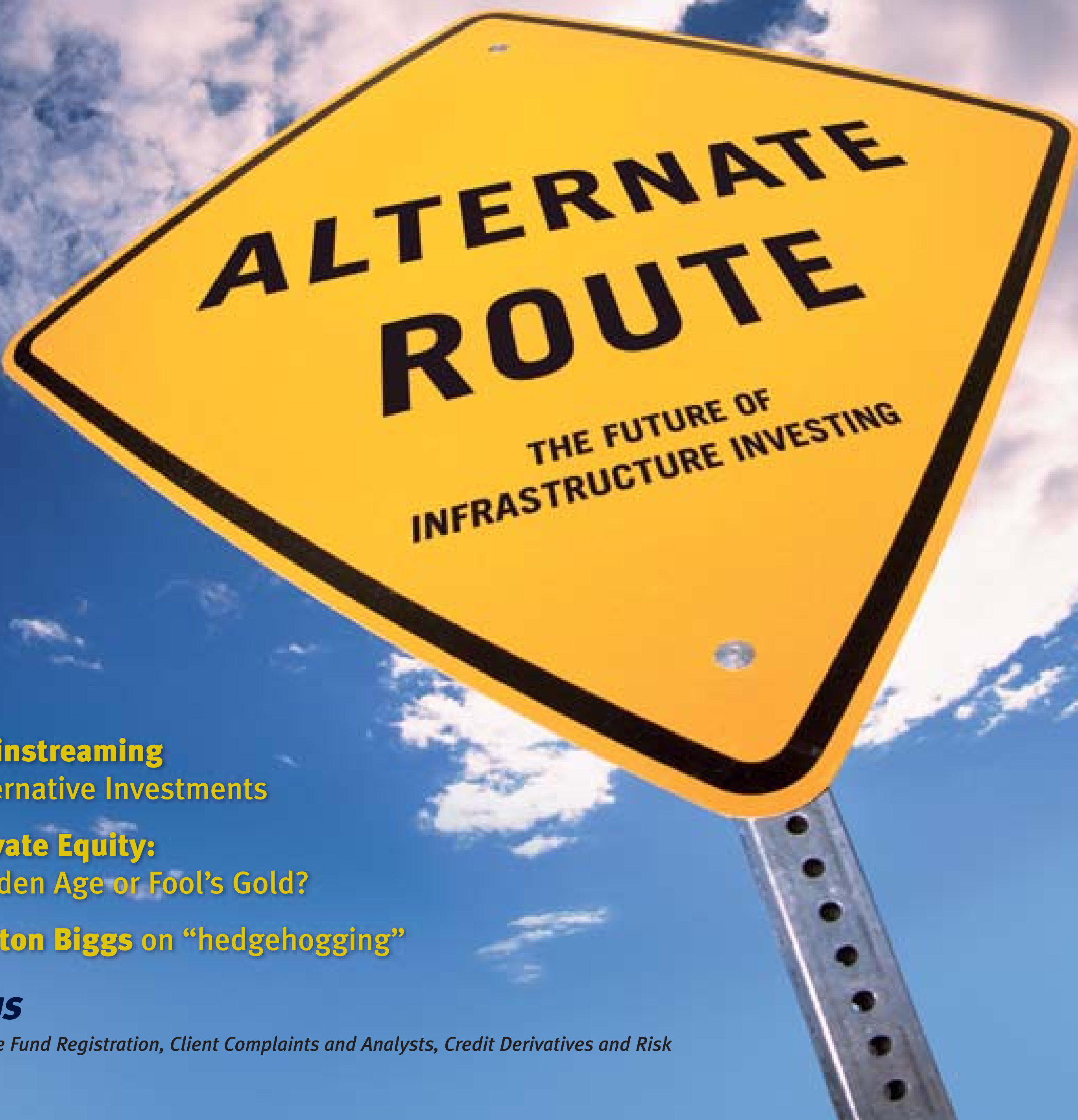

Mainstreaming
Alternative Investments

Private Equity:
Golden Age or Fool's Gold?

Barton Biggs on "hedgehogging"

PLUS
Hedge Fund Registration, Client Complaints and Analysts, Credit Derivatives and Risk

AGREE

Although there are probably as many definitions of "alternative assets" as there are managers, alternative assets (whether commodities, real estate, or more traditional asset classes traded within a hedge fund) share some common characteristics, such as illiquidity, pricing inefficiencies, and leverage. These characteristics are not found at all or to this level in classic asset classes, such as large domestic cap, international, etc., and will influence return and risk parameters. That is why I agree that even though we should do a better job of defining (and maybe "slicing") alternative assets, they do form a separate asset class.

Florence Mauchant, CFA
New York, New York

Alternative investments demonstrate all of the requirements for being a separate asset class, and they offer potential diversification benefits because of their low correlation to traditional asset classes. Investors can designate a small portion (say, 5 percent) of their portfolio to alternative investments in order to achieve a better risk–return profile and form a more efficient portfolio.

Kevin Ragland
Louisville, Kentucky

"Alternative investments demonstrate all of the requirements for being a separate asset class, and they offer potential diversification benefits because of their low correlation to traditional asset classes."

KEVIN RAGLAND

DISAGREE

Alternative investments is too broad a category to lump into one asset class, as they are investments with widely varying return, volatility, and other risk characteristics (especially leverage). Practically, in constructing a portfolio, one cannot consider an unleveraged bond arbitrage fund in the same class as a venture capital fund. They perform different roles in portfolio construction and may be suitable for investors with different risk profiles.

Andrew Moses, CFA
Pretoria, South Africa

For purposes of marketing hedge funds and private equity, alternative investments can make a convenient asset class. For example, consider, "Mr. Prospect, would you like to diversify your portfolio by gaining exposure to this promising asset class?" versus, "Mr. Prospect, would you like to relax manager constraints on short sales, derivatives, borrowed money, and illiquid assets?" If clarity and consistency matter, alternative investments should not be treated as a separate asset class. Hedge funds and private equity are forms of active management and are no more an asset class than mutual funds or separately managed accounts.

H. Parker Evans, CFA
Clearwater, Florida

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