A 360 degree holistic approach is important in financial planning" says Jay Kabad

By Manu Shah

Markets have a mind of their own and the question that often arises is where does one park their money to ensure safe returns? The tech burst of 2002 and the recession of 2008 shook investors who realized that the traditional stocks, bonds and cash investments didn't really pay off. Financial circles and economists wondered what could be done to minimize the risk and safeguard returns. The concept of Alternative investments slowly began making headlines.

IACCGH invited one of its members, Jay Kabad of JayKay Wealth Advisors, Inc. to conduct a seminar and explain what Alternative investments are. About 40 members and guests who included IACCGH's resource partners, members of the Turkish American Chamber and the Greater Houston Retailers Association gathered at the Hess Club on the 27th for a better understanding of Alternative investments.

Kabad initiated his talk with a brief introduction of the Wealth Management Process which includes tax reduction planning, estate planning, retirement income planning, risk management and investment planning. According to Kabad, the importance of taking a 360 degree holistic view of one's finances is key to good financial planning.

"Investment philosophies", explained Kabad, "have undergone radical changes over the years". Back in the 1930's investments were mainly in the form of stocks and bonds. There was no methodology for buying stocks until Dodd and Graham wrote a book called "Security Analysis" which talked about how to analyze companies and then buy stocks. None other than the guru of investing – Warren Buffet follows it to date!

In 1952, a young graduate student, Harry Markowitz caught everyone's attention with his 14 page thesis simply titled "Portfolio Analysis" - which mathematically processed how one can reduce risk and increase returns through diversification and investments in uncorrelated assets. This theory stood the test of time but two events changed that – the 2002 tech burst and the 2008 great recession. What gradually gained growing acceptance is the concept of Alternative Investments as asset classes. Alternative investments may be uncorrelated or less correlated to traditional assets such as stocks, bonds and cash in order to reduce risk in their portfolios.

Alternative investments could be in the form of managed futures, long-short equity, long-short fixed income, global macro as well as private equity and private debt. Kabad gave a brief overview of each one of the above:

Managed Futures are professionally managed portfolios that identify and react to price movements using their own computer-based trading systems to invest in futures and options. They contract 150+ global futures markets with exposure to four major asset classes (equities, bonds, commodities, currencies)

Global macros are professionally managed portfolios which predict price movements typically relying on fundamental/macroeconomic data to invest in futures and options. They contract 150+

global futures markets with exposure to four major asset classes (equities, bonds, commodities, currencies).

Long-Short Equity is a professionally managed portfolio that seeks to produce equity-like returns with lower volatility compared to long-only equity strategies. Their success is based on effective stock selection and market exposure management.

Long-Short Fixed incomes are professionally managed portfolios that seek to achieve favorable return and / or risk profiles through investment in various fixed income securities. Their success is based on effective security selection, market exposure and duration management.

Answering a query regarding the returns for Alternative investment portfolio over the years compared to a traditional portfolio, Kabad replied that Managed Futures had a great 2008 but has not done as well the last few years, the Long-short has done well and the Global Macro has done reasonably well. He also clarified that the cost of investing in Alternative investments is a little higher but the return may also be higher while reducing risk.

The take home lesson that evening was to consider Alternative investments with an open mind based on individual circumstances, objectives and risk profiles.

After a euphoric 2013 when returns were a whopping 32% against a projected 7%, one can't help but ask - what do future markets look like? While economists foresee a 10-15% return for 2014, Kabad cautions one not to expect more than 7%-8%.