Investment Alternatives

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Abstract:
The problem of surplus gives rise to the question of where to invest. In the past ,investment avenue were limited to real assets, schemes of the post office and banks. At present a wide variety of investment avenues are open to the investor to suit their needs and nature. An ***alternative investment*** *is an investment in asset classes other than stocks, bonds, and cash. The term is a relatively loose one and includes tangible such as precious metals,*[1] *art, wine, antiques, coins, or stamps*[2] *and some financial assets such as a Fund, commodities, private equity, distressed securities, hedge funds, carbon credits,*[3] *venture capital, film production*[4] *and financial derivatives. Investments in real estate and forestry*[5] *are also often termed alternative despite the ancient use of such real assets to enhance and preserve wealth. Alternative investments are to be contrasted with traditional investments.*

The name "alternative investments" suggests new and obscure investments, however alternative investments have existed and been established for decades. In this subject there are many types of investment in their. There are traditional and alternative investments in this. This study focus on the goal of the investment alternative.

Keywords: *Active risk, Alternative investment, Commodities, Investment*

1. Introduction

Alternative investments are sometimes viewed as including any investment that is not simply a long position in traditional investments. Typically, traditional investments include long positions in equities, fixed income, and cash. For example, if a particular investment such as private equity is not commonly covered as equity in books on investments, then many people would view the investment as an alternative investment. The alternative investments by exclusion definition are overly broad for the purposes of the CAIA curriculum. First, the term investment includes a very broad spectrum. A good definition of an investment is that it is deferred consumption. Any outlay of cash made with the prospect of receiving future benefits might be considered an investment. So investments can range from planting a tree to investing in stocks to college educations. As such, a more accurate definition of alternative investments requires more specificity than simply that of being non traditional. This book and the overall CAIA curriculum are focused on institutional-quality alternative investments. An institutional-quality investment is the type of investment that financial

Alternative investments often share a few principal characteristics that help identify them as such: Historically low to moderate correlation with traditional asset classes (stocks and bonds)*** Not listed on an exchange Private investment funds available only to high net worth and institutional investors Reduced liquidity.

Institutions such as pension funds or endowments might include in their holdings because they are expected to deliver reasonable returns at an acceptable level of risk. For example, a pension fund would consider holding the publicly traded equities of a major corporation but may be reluctant to hold collectibles such as baseball cards or stamps. Also, investments in very small and very speculative projects are typically viewed as being inappropriate for a financial institution such as a pension fund due to the fund's duty to select investments that offer suitable risk levels and financial return prospects for its clients.

2. Definition of 'Alternative Investment'

An investment that is not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity. Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts.

3. Investopedia Explains 'Alternative Investment'

Many alternative investments also have high minimum investments and fee structures compared to mutual funds and ETFs. While they are subject to less regulation, they also have less opportunity to publish verifiable performance data and advertise to potential investors.

4. Alternative Investments Differ From Traditional Investments

1. Traditional Investments

Relative performance objective*
Generally no leverage
Performance dependent primarily on market returns historically high correlation with market indices
Typically offers daily liquidity
Fixed management fee on assets under management

2. Alternative Investments

Absolute performance objective*
May use leverage
Performance dependent primarily on advisor skill
Historically low to moderate correlation with market indices
Typically have reduced liquidity ranging from monthly to 12+ year lock-ups
Generally higher fees which may include performance fees

5. Types of Investments

We've already mentioned that there are many ways to invest your money. Of course, to decide which investment vehicles are suitable for you, you need to know their characteristics and why they may be suitable for a particular investing objective.

1. Private Equity

The term private equity is used in the CAIA curriculum to include both equity and debt positions that, among other things, are not publicly traded. In most cases, the debt positions contain so much risk from cash flow uncertainty that their short-term return behavior is similar to that of equity positions. In other words, the value of the debt positions in a highly levered company, discussed within the category of private equity, behaves much like the equity positions in the same firm, especially in the short run.

2. Bonds

Grouped under the general category called fixed-income securities, the term bond is commony used to refer to any securities that are founded on debt. When you purchase a bond, you are lending out your money to a company or government. In return, they agree to give you interest on your money and eventually pay you back the amount you lent out.

3. Mutual funds

A mutual fund is a collection of stocks and bonds. When you buy a mutual fund, you are pooling your money with a number of other investors, which enables you (as part of a group) to pay a professional manager to select specific securities for you. Mutual funds are all set up with a specific strategy in mind, and their distinct focus can be nearly anything: large stocks, small stocks, bonds from governments, bonds from companies, stocks and bonds, stocks in certain industries, stocks in certain countries, etc.

4. Real Assets

The category of real assets focuses on investments in which the underlying assets involve direct ownership of nonfinancial assets rather than ownership through fi- nancial assets such as the securities of manufacturing or service enterprises. Real assets tend to represent more direct claims on consumption than common stocks, and they tend to do so with less reliance on factors that create value in a company, such as intangible assets and managerial skill.

5. Hedge Funds

Hedge funds represent perhaps the most visible category of alternative investments. While hedge funds are often associated with particular fee structures or levels of risk taking, we define a hedge fund as a privately organized investment vehicle that uses its less regulated nature to generate investment opportunities that are substantially distinct from opportunities offered by traditional investment vehicles, which are subject to regulations such as those restricting their use of derivatives and leverage.

6. Commodities

Commodities are investments distinguished by their emphasis on futures contracts, their emphasis on physical commodities, or both. Commodities are homogeneous goods available in large quantities, such as energy products, agricultural products, metals, and building materials. Futures contracts refer to traditional futures contracts, as well as closely related derivative products, such as forward contracts and swaps. Most of the investments covered in the commodities section of the CAIA curriculum involve futures contracts.

7. Alternative Investments: Options, Futures, FOREX, Gold, Real Estate, Etc.

So, you now know about the two basic securities: equity and debt, better known as stocks and bonds.

6. Structures among Alternative Investments

The previous sections defined the category of alternative investments by describing the investments that are or are not commonly thought of as alternative. But the question remains as to what the defining characteristics of investments are that cause them to be classified as alternative.

- Regulatory
- Securities structures
- Trading structures
- Compensation structures
- Institutional structures

7. Objective of alternative investment

1. To get a knowledge of the differences between alternative investments and traditional investments.
2. Demonstrate knowledge of how alternative and traditional investments are distinguished by return characteristics.
3. To know of the goals of alternative investing.

8. Goals of alternative investing

1. Active Management

Active management is an important characteristic of almost all alternative investments. Unlike traditional investing, where the focus is often on security analysis and passive portfolio management,

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in alternative investing the focus is often on analyzing the ability of the fund to generate attractive returns through active management.

2. Absolute and Relative Returns

Earlier in this chapter, the concepts of benchmark returns, absolute return products, and investment diversifiers were briefly introduced. Let's examine those and other concepts in more detail. In alternative investing, there are two major standards against which to evaluate returns: absolute and relative.

3. Arbitrage, Return Enhancers, and Risk Diversifiers

The concept of arbitrage is an active, absolute return strategy. Pure arbitrage is the attempt to earn risk-free profits through the simultaneous purchase and sale of identical positions trading at different prices in different markets. Modern finance often derives pricing relationships based on the idea that the actions of arbitrageurs will force the prices of identical assets toward being equal, such that pure arbitrage opportunities do not exist or at least do not persist.

9. Alternative Investing Benefits

Returns independent of Stock Market Performance.

Reduction of risk via portfolio diversification.

Have performed well historically during market crises (Oct. 1987, Asian crisis 1998, 9/11 tragedy, current credit crisis 2007-2008).

Low correlation to traditional investments such as stocks, real-estate, and bonds.

10. Conclusion

Investment alternative are many in number they are negotiable financial investment. Equity offers high return with high risk. Commercial paper has short-term maturity and its favoured companies and institution investor .investment avenues in market but investing invest before all its information. This information is too useful before investing.

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