Investors are always looking for ways to improve their portfolio diversification to meet long-term investment goals. For some, that calls for assets that can complement traditional equities and fixed income—alternative assets. Alternatives can play a key role in a well-diversified portfolio—especially in tax-advantaged vehicles like IRAs.

Are alternatives right for your portfolio?

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The Role of Alternatives in Asset Allocation

Asset allocation is a strategy of investing in different asset classes to balance risk and reward based on an investor’s goals, risk tolerance and time horizon. It’s one of the first things that investors learn when they start investing, and one of the most important decisions investors make. The idea is that asset classes, like equities, fixed income and cash, for instance, perform differently over time, and that having the right asset allocation can help an investor balance risk and return. Over the years, investment companies have created products like target date funds that may help investors more easily spread their investments across different asset classes.

Individual vs Institutional Allocation

If you do a quick internet search on asset allocation models, you’ll find that most offer some basic guidelines for how to balance a portfolio, but they generally stop at the three primary asset classes: equities, fixed income and cash.

The 2017 American Association of Individual Investors Asset Allocation Survey reported that the average portfolio consisted of about 66% equity, 16% fixed income, and 18% cash. But when you look at large, institutional investors—college endowments or pension plans, for instance—their asset allocation models look quite different. According to a January 2017 report from the National Association of College and University Business Officers (NACUBO), university endowments report average asset allocations of 35% equity, 8% fixed income, 4% cash and 53% alternatives. More than half of the endowments’ assets were invested in alternatives, including private equity, hedge funds, commodities and more.

### AVERAGE ASSET ALLOCATION

**Individual Investors**
- Equities 66%
- Fixed Income 16%
- Cash 18%

**University Endowments**
- Equities 35%
- Fixed Income 8%
- Cash 4%
- Alternatives 53%

Sources: American Association of Individual Investors, January 2017

Source: National Association of College and University Business Officers, January 2017
Why do alternatives make up such a large portion of institutional portfolios? The investment managers for these large portfolios recognize that there are opportunities beyond traditional asset classes that can help them better optimize for risk and return. By nature, these endowments are large—the average size was almost $640 million according to NACUBO—and traditionally these asset classes have required higher investment minimums, putting them out of reach for most investors. Various investment platforms however, including many of those available through the Millennium Alternative Investment Network® (MAIN®), are making alternatives more accessible to individual investors, often times with lower investment minimums.

Opportunities for Individual Investors

If you do a quick internet search on asset allocation models, you’ll find that most offer some basic guidelines for how to balance a portfolio, but they generally stop at the three primary asset classes: equities, fixed income and cash.

Individual investors are becoming more educated and aware of alternatives, but there is still room for improvement. According to a December 2016 FINRA Investor Education Foundation study, as few as 15% of investors reported owning alternative assets in their portfolios.

Alternative investments are becoming more mainstream. According to a 2017 report from accounting firm PricewaterhouseCoopers (PwC) titled “Asset & Wealth Management Revolution: Embracing Exponential Change,” global alternative investments are expected to grow to $21.1 trillion by 2025. PwC states that “active, passive and alternative strategies are becoming building blocks for multi-asset, outcome based solutions,” and that growth will be driven by real assets (especially infrastructure and real estate), private equity and hedge funds. ¹

As awareness increases, we expect alternatives to continue to become more mainstream. Be sure to educate yourself about the many options available, and work with your financial advisor to determine if alternatives may be worth considering for your investment portfolio.

An Overview of Alternative Assets

At Millennium Trust, we define an alternative asset as one that is not publicly traded, usually non-liquid and typically isn’t priced daily. We’ve listed the most common alternative asset classes along with investors’ current investment interest.

Real Estate
Investors interested in real estate can choose among:
- Investing directly in properties
- Pooling funds with other investors to purchase a property
- Purchasing shares in a real estate investment trust (REIT)

Real estate has a low correlation with other asset classes, so when the stock market is down, real estate can continue to thrive, making it a valuable diversification tool.

Survey Says

- 9 of 10 survey respondents say they are interested in adding real estate to their investment portfolios
- 92% also say they don’t hold real estate in an IRA

Hedge Funds
A hedge fund is a private pool of capital whose managers can buy or sell basically any asset. Although they resemble mutual funds, hedge funds are not regulated in the same manner and are limited to sophisticated investors, such as institutions and individuals with significant assets. They are popular with experienced investors who have substantial investable assets and are seeking additional returns and diversification.

Survey Says

- 78% of survey respondents are interested in investing in hedge funds
- Only 11% of survey respondents currently invest in hedge funds

1Source for all survey points, unless otherwise noted: August 2018 Millennium Trust survey of 500 individuals age 30 and over with household income of $200,000+ who have invested in stocks, bonds or commodities through an IRA or SEP-IRA.
Commodities come in different categories, including:
- Metals
- Energy
- Livestock
- Agriculture

They tend to have low or negative correlation to traditional equity markets, so when markets are volatile or down, commodities can provide stability. Investors can trade commodity futures or use a managed futures fund.

Survey Says

• 85% of survey respondents are interested in investing in private equity
• Only 20% of survey respondents currently invest in private equity

Survey Says

• More than 90% of survey respondents are interested in investing in precious metals
• Only 20% currently invest in precious metals

Private Equity

Private equity resembles hedge funds, but is instead comprised of investments in private companies. Often these investments are in new companies with the potential for substantial growth. New investment platforms are making private equity accessible at lower minimums than was previously the case.

Public vs. Private Companies

While traditional managers are limited to investing in the public markets, private equity managers can invest in a much broader universe of companies.

3,316
Publicly Traded

134,000
Privately Held

This example is for illustrative purposes only.

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1 Publicly Traded Companies listed on U.S. stock exchanges as of 12/2017. Source: Center for Research in Security Prices at the University of Chicago’s Booth School of Business.

2 Source: Hoovers, March 6, 2015 excludes Forestry; Mining; Depository Institutional Security and Commodity Brokers, Dealers, Exchanges, and Services; Holding and other Investment Offices, Museums, Art Galleries, and Botanical and Zoological Gardens; Private Households, Public Administration.
Marketplace Lending
Marketplace lending is an emerging tool that matches investors with borrowers via online platforms. It can include various types of loans including consumer, small business and education as well as real estate deals.

Crowdfunding
Crowdfunding pools money from individuals to fund new business ventures. It can be debt-based, as with online lending, or equity-based, as with private security offerings. By pooling money, crowdfunding platforms allow individuals to invest at a lower entry point than typical private equity or debt deals.

80% interest in marketplace lending or crowdfunding

Survey Says
- Almost 80% of survey respondents are interested in investing in marketplace lending or crowdfunding
- Only 5% currently invest in marketplace lending or crowdfunding

Are You Ready to Invest in Alternatives?
Alternatives can be a useful tool to improve overall portfolio diversification. Recent market volatility is an indicator of potential cracks in this unprecedented bull market. Equities have been outperforming expectations for years, but are you ready for when the market turns?

Continue reading for 5 Reasons to Consider Using a Self-Directed IRA to Invest in Alternatives.
5 Reasons to Consider Using a Self-Directed IRA to Invest in Alternatives

Alternatives can play a key role as powerful diversifiers in your overall portfolio, and holding alternatives in your IRA can add the benefit of tax-free growth over time.

1. Alternatives Are Part of a Large and Growing Asset Class

Alternative assets—a class that includes hedge funds, private equity, real estate, commodities, marketplace lending and crowdfunding—are on the rise. In 2004, $2.5 trillion was invested in alternatives. By 2012, that figure had more than doubled, to $6.4 trillion. And by 2025 it’s expected to reach upwards of $21.1 trillion.1

2. Self-Directed IRAs Can Hold Alternatives

The tax benefits provided by self-directed IRAs can make them an excellent vehicle for alternatives. But Millennium Trust research shows that even investors who own alternatives in brokerage accounts often don’t own them in IRAs. For example, while 37% of high-net-worth investors in the study invest in real estate, only 10% do so within an IRA.

To learn what’s allowed in self-directed IRAs, see IRS Publication 590A.

FORECAST: MORE THAN $21.1 TRILLION INVESTED IN ALTERNATIVES 2025

This growth presents an opportunity for investors, for whom alternatives are likely underutilized: The mean allocation of alternatives by advisors is still less than 5% of overall assets.2

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3. Alternatives May Help You Use Risk to Your Advantage

In the face of unstable geopolitics, changing tax policies, a barrage of central bank decisions and other variables, deep investment diversification is generally critical to managing market risk.

Alternatives may be a particularly effective ingredient, since they have a low correlation with other asset classes and may provide a ballast during volatile times.

4. Alternatives Have Matured and Moved into the Mainstream

While alternatives have long had a reputation for being risky, in reality they constitute a diverse asset class with a broad range of attributes and varying degrees of risk. Customized to complement your overall portfolio, they can help soften the impact of volatility and, when held in a tax-deferred account like an IRA, can provide opportunities for tax-deferred growth.

5. Alternatives Are Not as Hard to Access as They Once Were

The process of investing in alternatives is also becoming easier, as new online investment platforms allow advisors to access a variety of alternative investment opportunities without the burden of complicated paperwork.

Most investors have a long way to go before they are fully diversified, but the more assets they have, the more likely they are to devote a higher percentage to alternatives. One survey showed that ultra-high-net-worth investors devoted 46% of their portfolios to alternatives, compared to 22% for certain high-net-worth investors.

Maintaining the right mix of traditional and alternative assets can help you capture attractive total returns without taking on undue risk. And accessing alternatives has never been easier – Millennium Trust has the expertise to help you.

Interested in Learning More About Alternatives?

Continue reading to learn about resources available to investors that provide education and access to alternatives.
Discover, Research and Invest in Alternatives with MAIN®

Access educational resources and alternative platforms to help meet your investment goals.

The Millennium Trust Alternative Investment Network® (MAIN®) makes it easy for you to hold alternative assets in your Millennium Trust account — helping to put alternatives into the reach of qualified investors.

MAIN can help you:

**Discover** the basics of alternatives and how they can be part of your retirement portfolio

**Research** the various alternative asset classes and investment platforms

**Invest** in one or more of the ever-expanding number of platforms in our network

Visit mtrustcompany.com/main today to experience the new MAIN, educate yourself about alternative investing, access the various platforms, and invest through the simplified and streamlined process. Millennium will help guide you through the process once you are ready to invest.
Discover: Explore the World of Alternative Investing

Educating yourself about alternative assets starts with MAIN, where you’ll find many resources for you to learn about investing in real estate, private equity, precious metals and more. If you work with a financial advisor, talk with him or her to determine which alternatives may be worth considering for your self-directed IRA and investment portfolio. Millennium Trust is committed to providing continued education about alternative assets. Visit MAIN and click “Discover” to access a variety of educational materials including articles, infographics, and more. Just click on one of the tiles to explore and learn.

Some of the useful resources you’ll find include:

<table>
<thead>
<tr>
<th>Diversify Beyond Traditional Assets</th>
<th>Is This a Market Correction, or Something More?</th>
<th>Real Estate and the Well-Diversified Portfolio</th>
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<tbody>
<tr>
<td>Interested in investing in alternatives in a self-directed IRA? You’re not alone. Many investors are interested, but few realize how easy it can be.</td>
<td>Stock market volatility is a fact of life in the investment world. Even though it can be disconcerting, it can also be an opportunity to work with your advisor to reevaluate your investment strategy.</td>
<td>Though the bull market has been leaving investors grinning, the constant threat of recession is consistently looming in their minds. Financial advisors continue to preach that the best protection from a volatile market is a well-diversified portfolio.</td>
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Research: Know Your Alternatives

When it comes to investing, there are lots of choices. What holds many of today’s investors back is simply lack of knowledge of alternatives and how they can be held in an IRA. The good news is, it’s getting much easier to close that information gap. Through MAIN, you have access to a library of information about the various types of alternative assets beyond what you hold today that can be accessed through the network of investment platforms.

Looking to further diversify your portfolio with alternatives? Of course you’ll want to speak with your financial advisor to determine what is right for your portfolio. In the meantime you can visit MAIN, click “Research,” and access educational resources about the following alternative asset classes:
Invest: Explore Investment Platforms

After you’ve educated yourself and consulted with an advisor, you may be ready to find the platform that’s right for you. From MAIN, you simply click the link for that platform to be redirected to its website. There, you’ll find in-depth information about their available investments and the requirements for investing. If you decide to invest, the investment platform will direct you back to Millennium Trust to either fund your existing Millennium Trust account or open a new one, and to complete the investment forms. Whether you’ve used MAIN before or not, you can get started online today.

We’ve made it even easier to refine the list of investment platforms. Just choose the asset category, investment minimum or investor status that suits your needs to narrow your choices.

Visit MAIN, and click “Invest” to explore the investment platforms today and find one that might meet your investment needs. Or just turn the page and see what platforms are currently available through MAIN.

Established in 2000, Millennium Trust is an expert provider of retirement and custody solutions committed to the evolving needs of advisors, financial institutions, businesses, and individual investors. Millennium Trust empowers clients with trusted expertise, exceptional service and access to a wide range of custody solutions. Whether you are managing alternative assets, investment accounts or retirement funds, we are uniquely qualified to service your custody needs.

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