

# ALTERNATIVE INVESTMENTS: THE GOOD, THE FLAWED, THE BAD, & THE UGLY OF THE CORONAVIRUS CRISIS

Based on: The Only Guide to Alternative  
Investments You'll Ever Need

by Larry Swedroe



# WHAT IS AN ALTERNATIVE INVESTMENT?

- An alternative asset could be anything outside of domestic stocks, high quality bonds, and banking instruments that is expected to make a return on investment.
- Good alternative investments can provide diversification and flexibility.
- Alternative investments also bring complexity and risk, and some bring more trouble than they are worth.
- The Coronavirus crisis has impacted every asset class, with few providing a positive return amidst the crisis.
- Do alternative investments belong in your portfolio?



## ALTERNATIVE ASSETS

- Real Estate
- Gold/Precious Metals
- Commodities
- International Equities (Emerging Markets/Int'l Small Cap)
- TIPS
- High Yield Bonds, Preferred Shares, and Convertible Bonds
- Cryptocurrency



# QUESTIONS AND ANSWERS

- At the end of each slide, I will pause for a brief Q&A on any of the material presented.
- A dedicated Q&A will be available at the end to discuss any and all questions on the presentation.



# REAL ESTATE – REITS AND RENTAL PROPERTIES

- Real Estate offers equity-like risk and returns, and low correlation.
- Real Estate is varied – REITs, Rental Properties, etc.
- Commercial and residential property sectors are both under extreme duress due to halted rent/mortgage payments.
- Eviction crisis is unfolding.
- Commercial real estate is at a high risk.



# GOLD AND PRECIOUS METALS



- Gold and precious metals are often marketed as stores of wealth that can hedge against inflation, market collapse, and government collapse.
- Gold and precious metals are not income producing assets.
- Despite that, Gold has flourished due to inflation fears and monetary policy.
- Silver is on a wild, speculative ride.
- The remaining precious metals have not broken out.



# TIPS & I BONDS



- Treasury Inflation Protected Bonds and I Bonds are bonds whose distributions adjust with inflation.
- What are you defending against?
- TIPS have had steady returns during the crisis.
- Will falling commodity prices and wages cause deflation?
- Will global economic stimulus cause inflation?



# COMMODITIES

- Commodities are often touted for their negative correlation to stocks and bonds. In theory, they can save the day in a crisis.
- However, the Coronavirus crisis was coupled with an oil crisis.
- Disrupted economic activity, trade tensions, and sweeping industrial changes challenge almost all Commodities.
- Commodity prices are ‘recovering,’ but it is exaggerated.





# INTERNATIONAL EQUITY EMERGING MARKETS AND INT'L SMALL CAP



- Emerging Markets and Int'l Small Cap are high risk/reward assets with low correlation to other equities.
- Each country's response to the virus is different.
- Countries still struggle to reopen, and some countries face a 'second wave'.
- This may be the most uncertain time in global economic history.



# HIGH YIELD BONDS, PREFERRED SHARES, CONVERTIBLE BONDS

- High Yield Bonds, Preferred Shares, and Convertible Bonds offer diversification, but each have their own flaws.
- Preferred Shares are trading at low prices due to high risks.
- Convertible debts are being issued by companies that can't afford regular debt.
- Junk Bonds bought by Fed do not hold value for long, highly speculative.

Bond Rating		Grade	Risk
Moody's	Standard & Poor's		
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Baa	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default



# CRYPTOCURRENCY

- Cryptocurrency are decentralized digital currencies.
- Interesting technology, but way too risky.
- Cryptocurrency is too new to make any evidence based observations.
- Cryptocurrencies are rising in value through the crisis.
- Despite proponents, they offer speculation, not safety.



# QUESTIONS AND ANSWERS

