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## **Use of Liquid Alternative Investments Continues to Expand but Many Financial Advisors Have Yet to Fully Integrate These Diverse Strategies**

*New annual study tracks use of liquid alternatives among financial advisors*

BOSTON, April 7, 2014 – Financial advisors are making growing use of alternatives through vehicles such as mutual funds, ETFs, and variable annuity sub-accounts, but usage of liquid alternatives remains concentrated in a narrow group of heavy users, according to a new report released today by **Practical Perspectives**, an independent consulting, competitive intelligence, and research firm working with wealth management providers and distributors.

The 80 page report “**Financial Advisors and Liquid Alternatives 2014 – Insights and Opportunities**” is the third annual study by Practical Perspectives that examines key factors related to usage of liquid alternatives and different patterns among advisor segments. The analysis reviews how advisors use mutual funds, ETFs, and variable annuity sub-accounts across a variety of alternative strategies including real estate, commodities/natural resources, managed futures, multi-strategy, global macro, absolute return, long short, market neutral, hedged equity, managed volatility, currency, bear market, and private equity strategies. It also examines differences across key distribution channels including Wirehouse, Regional, Independent, and Registered Investment Advisors (RIAs).

Most advisors serving retail clients prefer to use liquid alternatives to enhance portfolio diversification and to manage portfolio volatility and risk. The majority of advisors expect to continue to expand usage in the coming years. While alternatives are used by many advisors, their usage differs widely and provides a basis for targeting sales and communications efforts.

*“Liquid alternatives are increasingly important to advisors in serving retail investors. This growth has been spurred by the evolving capital markets environment and the expanded availability of these strategies in mutual fund, ETF*

*and VA vehicles,” says Howard Schneider, President of Practical Perspectives author of the report. “While overall use of liquid alternatives continues to grow and advisors are using a wider range of strategies, only a small number of advisors have fully integrated liquid alternatives into their practices. A large number of advisors that use liquid alternatives have minimal assets invested and they need enhanced training and sales support to broaden their usage of these products and strategies beyond select clients. It’s critical for product providers and distributors to understand how advisors use liquid alternatives and to focus resources on helping advisors apply these solutions.”*

*“The audience for liquid alternatives is definitely expanding,” notes Mr. Schneider. “Yet many advisors still lack detailed familiarity with many of these strategies. We find that not all advisors are satisfied with how liquid alternatives have performed in the past year. Many are also only moderately satisfied with support they get from product providers and broker-dealers relative to the importance they place on factors such as sales support, detailed product research, and due diligence. And many advisors want enhancements to liquid alternatives, especially more transparency and greater access to in-depth research and analysis on the portfolio dynamics.”*

The analysis is based on over 500 on-line surveys conducted in March 2014 with financial advisors and representatives, as well as interviews with advisors and industry executives. Those surveyed include full service brokers, independent brokers, financial planners, Registered Investment Advisors (RIAs), and bank/insurance representatives.

Other highlights of the report include:

- While more than 7 in 10 advisors use liquid alternatives, most advisors have less than \$25 million in total assets across liquid alternative strategies including more than 1 in 3 advisors that manage less than \$5 million.
- Real estate and commodities/natural resources are the specific approaches used most often by advisors but at least seven other alternative strategies including multi-strategy, global macro, long/short, and absolute return are used by roughly 60% or more of advisors.
- Advisors use a diverse range of firms to access liquid alternatives, with only a limited number of product providers having significant user “mindshare” including BlackRock, PIMCO, and Mainstay.
- There is moderate satisfaction with how liquid alternatives have performed in the past year, with absolute and relative returns the key reasons that some

strategies such as Managed Futures and Managed Volatility have failed to meet advisor expectations.

- Multi-strategy liquid alternatives are used by many advisors, either alone or in combination with individual strategies.
- RIAs are distinct from other advisors in how they perceive and use liquid alternatives reflecting their more hands-on role as money managers.

*“This report offers a unique, in-depth advisor driven view of liquid alternatives. There is little doubt that product providers and distribution platforms are continuing to expand efforts to help advisors implement liquid alternative strategies. The research suggests that advisors want more support, especially related to areas that are of high importance such as product training and research. We believe the opportunity for growth remains significant for firms that step up efforts to satisfy advisors.”*

The detailed report includes 63 Exhibits and is available for purchase by contacting: [howard.schneider@practicalperspectives.com](mailto:howard.schneider@practicalperspectives.com)

For more information or for a press copy of the full report, call Howard Schneider at 978-590-7290.

### **About Practical Perspectives**

**Practical Perspectives** provides customized strategic and tactical support to companies involved in the creation and distribution of asset management products and services. Our support is provided for a variety of challenges including marketing, competitive intelligence, product, and retirement issues. We issue several reports each year that focus on key issues from the perspective of financial advisors.

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