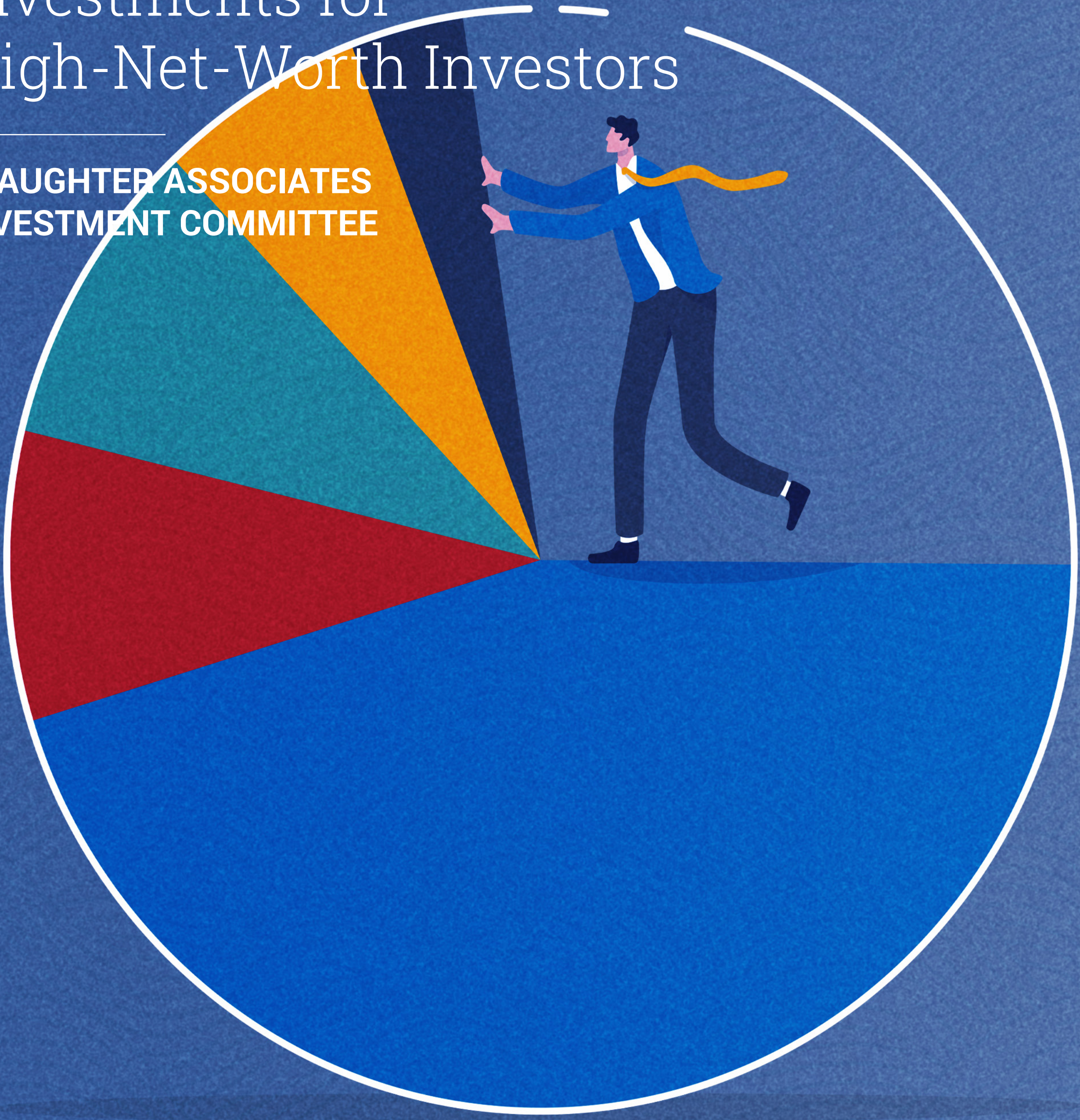
ON COURSE

The Value of Alternative Investments for High-Net-Worth Investors

SLAUGHTER ASSOCIATES INVESTMENT COMMITTEE



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High-net-worth investors and their wealth managers should always be looking for ways to improve the diversification of portfolios to boost returns, reduce risk, and preserve wealth. At the right stage, that objective may include the consideration of alternative investments. Including such investment types in a portfolio offers several key benefits that can enhance overall performance and stability.

Unlike traditional stocks and bonds, alternatives – such as real estate, private equity, hedge funds, and commodities – often have a low correlation to the broader market. Because of this, they can help reduce the overall volatility of one's portfolio and create a buffer during periods of market turbulence. Additionally, alternatives can provide opportunities for growth and income generation. Alternatives can also allow access to niche markets and strategies that may offer higher returns than traditional investments, particularly in a low-interest-rate environment.

What Are Alternative Investments?

By definition, alternative investments are a category of assets that fall outside the traditional investment classes of stocks, bonds, and cash. Below is a list of some of the more common alternative investments and their potential benefits to an overall investment strategy.

1. **Real Estate** includes direct property ownership, real estate investment trusts (REITs), and real estate funds. These investments can offer income (through rental yields), and the potential for capital appreciation.

2. **Private Equity and Venture Capital** investments involve acquiring shares in privately held companies or investing in early-stage startups. In each case, the investments offer the potential to yield substantial returns but depend upon the company's success.

3. **Hedge Funds** employ various strategies to generate returns, often including long and short positions, arbitrage, and derivatives

trading. As the name suggests, hedge funds can be a vehicle for providing diversification and risk management in a portfolio.

4. Commodities are investments into physical assets like gold, silver, oil, and agricultural products and provide exposure to the asset's price movements. As part of an overall strategy, commodities can help investors hedge against inflation.

5. Art and Collectibles along with antiques and rare coins are sometimes part of a broader alternative investment strategy. These assets offer the potential for significant appreciation over time, driven by factors such as rarity, historical significance, and cultural trends. Some items can also serve as a store of value during periods of economic uncertainty.

6. Private Credit includes investments through private loans, peer-to-peer lending, and similar private credit strategies. These investments can generate fixed income and have varying levels of risk.

7. Infrastructure Investments include projects such as toll roads, airports, and utilities. In many cases, they provide stable, long-term income streams and are often considered low-risk investments as they are generally associated with government-funded projects.

Why Should Alternative Investments Be Considered?

With some exceptions, alternative investments generally require investors with sizeable portfolios and a need or desire to further spread their diversification. Such high-net-worth investors should consider alternatives for various reasons, mostly diversification. Unlike traditional assets, alternatives tend to have low correlations with those markets. Their performance often moves independently, which can be particularly beneficial during periods of market instability. By adding alternatives assets to their portfolios, investors can reduce overall volatility and buffer against potential losses.

Another significant benefit is the potential for enhanced risk-adjusted returns. Since short-term market fluctuations have a smaller impact on alternative investments and typically involve lower volatility, they provide an opportunity to achieve stronger performance relative to the risks involved. Private equity, for instance, can generate substantial long-term returns, though these assets may come with higher levels of illiquidity and risk.

Alternative investments also offer flexibility in meeting individual financial goals. Whether the goal is income generation, capital preservation, or achieving long-term goals like retirement or philanthropy, the customizable nature of alternatives allows for strategies tailored to these unique needs.

Certain alternative investments can be very suitable for

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ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary for high net worth individuals, families, and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management while coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-only firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

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Other Interesting Fact
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investors with a long-term investment horizon. For example, private equity, venture capital, and real estate, typically require patience as these assets usually need time to mature and deliver returns. However, the potential rewards can be substantial for those with a more extended outlook.

In other cases, some alternatives can be used as sources of steady income. Real estate can generate rental income. Private credit and peer-to-peer lending can offer regular interest payments. Such sources of income can be particularly appealing to high-net-worth investors looking to cover living expenses or maintain a certain lifestyle.

Who Qualifies for Alternative Investments?

Finding and qualifying for alternative investments typically involves a few key steps. Investors often start by working with specialized financial advisors or wealth managers who have expertise in this area. These professionals can help identify suitable opportunities and navigate the complexities of each investment type. They will assess individual financial goals, risk tolerance, and investment horizon to tailor strategies that align with the investor's needs.

Qualifying for alternative investments usually involves meeting specific criteria, such as income or net worth thresholds, designed to ensure that investors have the financial capability to handle the risks involved. Due diligence is essential, as these investments often require a deep understanding of the underlying assets and their market dynamics.

Despite their advantages, alternative investments require careful consideration and a thorough understanding of their risks. Collaborating with experienced financial advisors can help create a well-structured, diversified portfolio that aligns with individual financial objectives and risk tolerances, ensuring the overall investment strategy contributes positively to the investor's financial health.

Richard P. Slaughter™
Associates

Richard P. Slaughter Associates, Inc.
9600 North Mopac Expressway, Suite 600
Austin, TX 78759
Tel. 512-918-0000

invest@slaughterinvest.com
slaughterinvest.com