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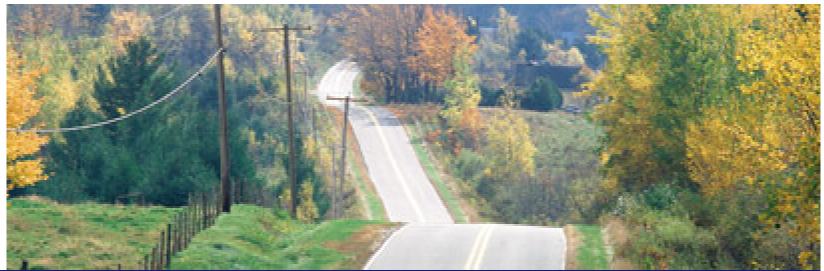

THE WHITE PAPER

Strategies for Managing Your Assets

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Do Alternative Asset Classes Belong in Your Portfolio?

Alternative investments are often defined not by what they are, but by what they are not. It is this quality that could make alternatives potentially valuable diversifiers when added to a portfolio of traditional investments.

While some investors may equate alternative investments with the high-risk/high-return vehicles that garner the lion's share of media attention (especially when they fail), research suggests that adding carefully selected alternative investments to a diversified portfolio of traditional stocks and bonds may materially reduce the overall risk of that portfolio without materially affecting expected returns.[1]

What Is Considered Alternative?

Some broad categories of alternative investments are:

- Private equity -- ownership shares of companies not listed on a public exchange.
- Private real estate -- real estate purchased directly through property pools, commingled real estate funds (CREFs), syndications, or separate accounts.
- Natural resources and commodities -- investment strategies intended to track the value of raw materials such as oil and gas, timber, metals, minerals, and grains.[2]
- Hedge funds -- funds that use a group of nontraditional strategies to invest in traditional assets. Hedge funds are sold privately and organized as limited partnerships or limited liability companies.[3]

General Benefits

One general benefit of alternative investments may be a low correlation to public stock and bond investments -- hence their potential to enhance portfolio diversification and reduce risk. Another potential benefit is the access investors might gain to specialized management expertise. On the negative side of the equation are limited liquidity, limited transparency, and high fees.

Lessons in Liquidity

One of the most important factors investors need to consider before adding an allocation to alternative investments is the issue of illiquidity. Some alternatives require investors to commit their capital for an extended period -- up to five to seven years, or longer.

For those who don't have the time or patience to wait out an investment for an extended period, there are alternative investments that can offer liquidity. For example, publicly-traded real estate investment trusts (REITs) provide simple and transparent means to invest in real estate with daily pricing and trading options.[4] In addition, some exchange-traded funds specialize in energy and commodity investments rather than commonly listed stocks and bonds.[5]

To learn more about alternative investments, and to determine if you meet the criteria needed to be eligible to invest in alternatives, contact your financial professional.

[1]*Past performance is no guarantee of future results. Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.*

[2]*Exposure to the commodities market may subject investors to greater volatility as commodity-linked investments may be affected by changes in overall market movements, commodity index volatility, changes in*

interest rates, or factors affecting a particular industry or commodity. Investing in the precious metals sector involves special risks, including those related to fluctuations in the price of precious metals and increased susceptibility to adverse economic and regulatory developments affecting the sector. It may also be subject to the risks of currency fluctuation and political uncertainty associated with foreign investing.

[3] *Hedge funds often engage in speculative investment practices that may increase the risk of investment loss. Hedge funds can be highly illiquid; are not required to provide periodic pricing or valuation information to investors; may involve complex tax structures and delays in distributing important tax information; are not subject to the same regulatory requirements as mutual funds; and often charge high fees.*

[4] *The stock prices of companies in the real estate industry are typically sensitive to changes in real estate values; property taxes; interest rates; cash flow of underlying real estate assets; occupancy rates; government regulations affecting zoning, land use and rents; and the management skill and creditworthiness of the issuer. Companies in the real estate industry may also be subject to liabilities under environmental and hazardous waste laws which could negatively affect their value.*

[5] *Exchange-traded funds (ETFs) are subject to market risk, including the possible loss of principal. The value of the portfolio will fluctuate with the value of the underlying securities. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling ETFs unless trading occurs in a fee-based account. ETFs may trade for less than their net asset value. Additional risks of ETFs include lack of diversification, price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking error.*

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