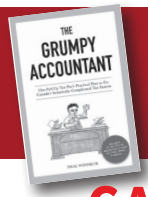

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Portfolio *Confidential*

Barbara Stewart

Here are three real world confidential portfolio discussions.

I am retired (61) and someone pitched me to change strategies. They said I needed to "pensionize" my nest egg by having my portfolio mirror a typical pension fund's investments and include alternative investments not correlated with the public equity and bond markets. They said pension funds are typically less affected by market swings as much as individually held retirement portfolios and that traditional fixed income securities are getting beat up as interest rates have decreased dramatically. As rates will likely remain very low for a long time they said this would increase the likelihood that I could "run out of money". I see risk in these alternatives as well as a lack of transparency and they charge a robust fee to manage them too. How appropriate is this asset class for retirees?

I would argue that your odds of running out of money depend more on your spending rate versus portfolio size than the prevailing level of interest rates! Retirees can be vulnerable to scare tactics such as sales pitches that use phrases like "running out of money" and this is a red flag. That said, this low yield environment is real and the question as to whether alternative assets are appropriate for retirees is a good one.

This Financial Times article frames today's dilemma: "A universe where bonds provide little to no interest fails in providing a fixed income beyond the current rate of inflation. It also limits the prospect of capital appreciation for portfolios. And that's the good news. Far more daunting is the likelihood that investment in government and other high-quality bonds over time registers negative returns once the global economy negotiates the pandemic. Sure, central banks will try to limit a sharp rise in yields on bonds, but a potentially more inflationary fu t ure explains why many current investment strategists favour a greater shift towards owning equities, commodities and alternative assets such as infrastructure."

In other words, alternative investment classes look like an unusually good idea right about now! I would recommend starting slowly and building up to no more than 20% of your overall portfolio. The trick is to figure out which alternative classes! This will require due diligence so seek out product offerings that align with your personal interests. In doing my own research I found offerings that sounded interesting to me: Ninepoint Global Real Estate Fund, Bridging Mid-Market Debt Fund, and the OurCrowd Pandemic Innovation Fund which invests in companies combating current and future pandemics. I am not endorsing any of these, I'm just providing some ideas as to what's available.