<p></p> <p> </p> <p>Remember the old Mazda car commercial touting the Wankel Rotary engine?� The piston engine goes "boing, boing, boing" while the rotary engine goes Hmmmmmmmm.</p> <p>The same could be said of your investment portfolio - especially if that portfolio is only invested in stocks and bonds (as most portfolios are, sad to say).� Your net worth goes "boing, boing, boing" with the markets while a smarter portfolio (including other asset classes) will produce much smoother and steadier results.</p> <p>I thought of this commercial while I was reading a technical article in Investment Advisor magazine (March, 2010 issue) about reducing risk in a portfolio by actually adding riskier asset classes.� This is a technique we've used for years and it works well (as long as the asset class being introduced has a low or negative correlation to the rest of the assets in the portfolio).</p> <p>I got to thinking: why would anyone want a portfolio that goes, "boing, boing, boing?"</p> <p>The short answer to that question is, "They don't!"� Nobody WANTS their wealth to be on a roller coaster ride ... yet that is the thrust of the main stream investment world - a "Buy stocks" or "Trade stocks" process that has a lot of action but long term has very little direction - as has been the case with the stock market (and likely your portfolio) the past 10 years.</p> <p>Of course, the stock broker makes money with this process even if you don't.</p> <h3>Inconvenient Truths
</h3> <p>The past month in this blog, we've unveiled a number of inconvenient truths.� The "10% Myth" article proves that historically, stock market returns are closer to 7% than the 10% figure mentioned in the media.� "Fat Tails" explains that average is not normal ... a stock market investor is far more likely to see a horribly bad return than an average return.� "Greed Is" points out that greed is neither a good thing nor a bad thing.� It just "IS."</p> <p>Every one of these myths was foisted upon the public by the investment community and promoted by the financial media.� They aren't lies as much as they are exaggerations.� One stock broker I know says this is no big deal.� "It's just good marketing."� It puts stock market investing in a favorable light and allows brokerage firms to focus on a narrow and simple business model (get all clients to buy/trade stocks - don't worry about those messy alternatives).</p> <p>"Boing, boing, boing" looks pretty good - at least you're bouncing around and not just laying there.� If all you know about is a piston engine, then you're happy to have one in your car.</p> <p>"Boing, boing, boing" looks pretty good ... until you see "Hmmmmmmmmm."</p> <h3>Alternatives - Investment Hmmmmmm
</h3> <p>What are these investment alternatives?</p> <p>They range from real estate investment trusts (REITs) to manage futures, options to Forex money exchanges.� There are many different flavors.� Some are simple, others are quite complicated.� Some correlate well with stock prices, others do not correlate at all.</p> <p>There are a few common traits among the better alternatives:</p> <p>Most investment advisors don't understand how they work - you need to work with a true professional - and they are commonly demonized by the main stream financial media as "wildly risky" or "too complicated for traditional investors."� I suspect they are too complicated for traditional stock brokers, but that does not mean they are too complicated for you or my clients.</p> <h3>How Risky Is It ... Really?</h3> <p>The article I was reading in Investment Advisor magazine discusses

'managed futures' a term that conjures up heartburn for the uninitiated (but as the article points out "it is typical to fear what we don't know or understand").� The author then goes on to calculate the riskiness of this investment asset class and finds out that managed futures had a much-less-bad worst month (-8.16%) than the S&P 500 (-16.79%).� The worst draw-down period for the managed futures index was a 15% loss over five months versus a 50.95% loss over 17 months (ending in February 2009) for the S&P 500.</p> <p>So exactly WHICH asset class is too risky for average investors like you?</p> <p>And yet the main stream financial media (the main marketing arm to all the brokerage houses, wealth managers and investment advisors) makes investing in the stock market seem glamorous and easy ... and makes out alternatives to be risky and unwise.� In fact, most investment professionals are very surprised to see those numbers - it goes against everything we thought we knew (that just wasn't so).</p> <h3>Smart Investor Plus�</h3> <p>My firm offers the "Smart Investor Plus�" strategy for our investment clients.� It starts with a globally diversified portfolio of stocks, bonds, commodities, real estate and cash.� We then overlay that portfolio with an options strategy - selling options to get in and out of each position.� This is a simple (although not intuitive) strategy that improves average rate of return (because you are being paid premiums to sell the options) and greatly decreases the downside risk.</p> <p>This is a strategy that goes "Hmmmmmmmm" even when the stock market is going "boing, boing. boing."</p> <h3>What's The Catch</h3> <p>When most people hear about this for the first time, they are concerned.� "Options are risky."� True, some kinds of option strategies can be risky.� This isn't one of those.� Once we explain this strategy to most investors, they understand pretty quickly how it is less risky than a traditional "buy and hope" stock portfolio.</p> <p>Then their only question is, "Why aren't more people doing this?"</p> <p>I would have to suspect that the reason is the same one plaguing the Wankel rotary engine.� Most people don't know there is an alternative to the piston engine.� It is typical to fear something that you don't understand.� The makers of piston engines have a vested interest in promoting that fear so they can sell more of their products.� The rotary engine is a threat to market share ... and you are none the wiser to being the pawn in their little game.� You keep on buying piston engines because ... well ... that's what everybody else is doing.� The alternative seems risky.</p> <p>If you want your wealth to go "Boing, boing, boing" for the next 7-10 years, then stick to your piston engine, all-stock portfolio.� If you want your wealth to go "Hmmmmm," it might be time to look into some alternatives.</p> <p><a href="http://www.facebook.com/share.php?u=<url>" target="_blank" onclick="return fbs_click()">Share This Article on Facebook </p> <div id="_mcePaste" style="overflow: hidden; position: absolute; left: -10000px; top: 1399px; width: 1px; height: 1px;"> <p style="margin-bottom: 0in;">sabotaging</p> </div>