

# Explore the Alternative

EDITORIAL



After years of expansion and stock market gains, our economy seems to have hit a bump in the road. Economists are debating whether we should expect a hard or soft landing, and what will come after that. No one can foretell the future, but consensus is building that whichever scenario turns out to be correct, returns from equities will probably be lower than we have recently experienced.

In either a slowdown or recession, stock and bond markets could fall concurrently, causing across-the-board losses in investment portfolios. What we need in these uncertain times are investments that are not negatively impacted by either one of these scenarios.

One of the advantages of holding alternative investments is that they react differently to a given economic environment than stocks and bonds. Including non-traditional investments in a portfolio also offers investors higher potential returns, increased diversification and reduced volatility of returns. Alternative investments include gold, real estate, private equity, venture capital and hedge funds.

Hedge funds have recently made huge inroads into the Canadian investment scene. These funds have enjoyed widespread acceptance in the United States for many years, but until fairly recently their use in Canada has been limited to a few large institutional investors. Possessing low to negative correlation with both stocks and bonds, these funds have the potential to perform well in both up and down markets.

Private equity also tends to be more popular south of the border, particularly with university endowment funds

and pension funds. California Public Employees'

Retirement System (CalPERS), for example, invests more than US\$15 billion of its US\$170 billion fund in private equity commitments. Other institutions are increasing their allocation to private equity as well, and Canadian investors are taking note.

Although gold has been in the doldrums for years, many still consider this metal to be a safe haven in uncertain times. One person with a vast amount of knowledge about gold is Peter Bernstein, author of *The Power of Gold: The History of an Obsession*. Since it is trading at less than it costs to get out of the ground, Bernstein's view is that the downside for the price is limited while the upside potential is great. As well as for its capital gain potential, he advocates holding a small position in gold as a hedge against uncertainty. "In the mother of all crises, I would fully expect the price of gold to rise up again," Bernstein says. He elaborates on his thoughts about gold and investing in general in an interview on page 25.

Since no one knows for sure what type of economic conditions lie ahead, hedging traditional assets against unforeseen circumstances makes sense. Although the mother of all crises is not the scenario most economists are calling for, that is precisely what a hedge is for—to protect against the unexpected.

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