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Alternatives back on the radar

Investors show renewed interest

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Despite market volatility investors are looking to alternative assets for the possibility of higher returns, portfolio diversification and increased tax efficiency over the medium term, according to a new report by Macquarie and research company Investment Trends.

"While investors have been impacted by the recent market downturn, many are now looking to buy undervalued assets on an opportunistic basis and cautiously move back into alternative investments," Investment Trends principal Mark Johnston said.

The report revealed that investors were optimistic about the performance of alternative assets, with those surveyed expecting their alternative instruments to deliver an average return of 17 per cent over time.

This compares with the 16 per cent per annum return expected in 2006.

Structured products were found to be the most popular alternative investment among investors who received advice.

Key reasons for choosing structured products included capital protection and low cash outflow upfront.

"The 'sleep at night' factor available in capital protected products is a key drawcard for many of our investors," Macquarie Security Group division director Kurt Jeston said.

The survey also found that contracts for difference, exchange traded funds, instalment warrants and exchange traded options were poised for volume growth relative to their current size.

"Volatile markets have caused a change in investment approach and investors are shifting towards simpler, shorter-dated and more transparent exposures," Jeston said.

"Investors are looking for increased capital directions as a direct result of market volatility."

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