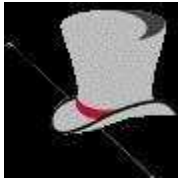


EUREKA *report*



Rich investors go alternative

By Supratim Adhikari
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PORTFOLIO POINT: The more people have to invest, the more likely they are to step outside the mainstream, particularly to exchange traded funds.

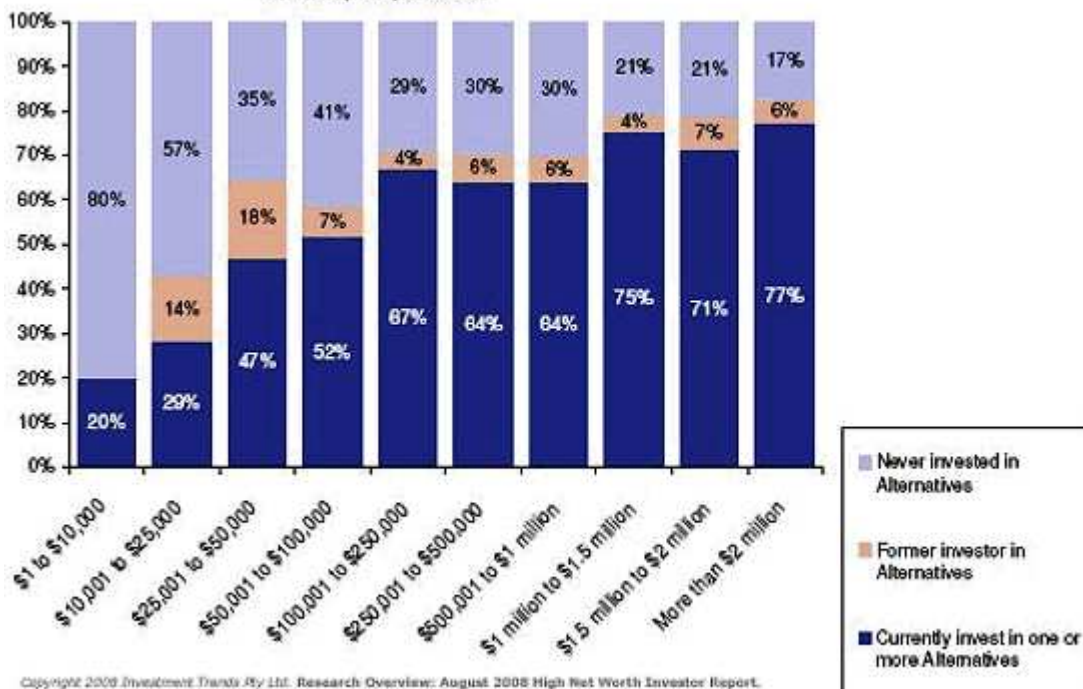
Rich investors are much more likely to move outside the traditional confines of shares, managed funds, property and cash to explore “alternatives”.

What’s more, according to new data released exclusively to Eureka Report, although high net worth investors (those with more than \$1 million to invest) appear to be taking a rest from hedge fund activity they are swarming towards low-cost exchange traded funds (ETFs).

Put simply, the more you have on the markets, the more you’re likely to try relatively newer investment options such as ETFs and related products. After studying the investing habits of 1600 Australian investors in recent months, Investment Trends principal Mark Johnson says: “We are finding very, very rapid growth at the moment in ETFs off a very low base and the accelerating growth is being driven by high net worth investors.”

The new data shows that among investors with less than \$20,000 in investments, just one in five will have explored “alternative investments”. As wealth rises, so too does the taste for alternatives: to four out of five investors with more than \$2 million.

Incidence of people using one or more types of Alternative investment in survey respondents



And although activity within the alternative investment category is subdued at the moment, clear trends are emerging in a post-crash market.

Volatility in the market has made investors more cautious and many are less comfortable with allocating too many of their assets outside the mainstream. In December 2006, people using alternatives had about a fifth of their assets in

the category, averaging about 21%; now the average is about 14%.

So usage is down, but it's important to remember that the alternatives sector is fairly large and although some products such as fund of hedge funds (a hedge fund with a diversified portfolio of numerous underlying hedge funds to reduce risk) have fallen out of favour as ETFs become more attractive in a difficult environment.

In fact, it is ETFs along with other 'cheap' products such as instalment funded warrants in DIY funds, or "safe" investments such as capital-guaranteed fixed-duration products, that are the flavour of the moment according to the survey.

Investment Trends says the number of Australian ETF investors almost doubled from 10,000 in November 2006 to 19,000 at the end of last year. In addition, survey responses indicated that 33,000 people are considering investing in ETFs.

ETFs are relative newcomers in the wealth management industry and are attractive to investors because they open up asset classes that are traditionally either difficult to access or reserved for ultra high net worth investors, or both. Developed originally in the USA, ETFs closely resemble index funds, except that they can be traded like stocks.



The ETF market is dominated by direct investors; only 10% of recent ETF investors saying a financial planner played a role in their decision, while 79% said they had invested without consulting an adviser.

Finding effective financial advice has often been a problem for high-net-worth investors, Johnston says, with the latest survey showing 59% of respondents were looking for additional advice beyond what they are already receiving.

However, the lack of support from financial advisers for ETF investing is starting to change, with 16% of planners intending to increase their use of ETFs in the coming year.

The bulk of the investment is shared between Barclays' Australian-listed iShares and State Street Global Advisors' ETFs. Barclays' emerging markets ETF is especially popular, with some money going into the commodities ETF and some into ETFs covering overseas exchanges.

Specialist ETFs have also become popular, such as the gold specialist ETF Gold Bullion Securities, which has enjoyed a strong price rise on the back of gold's surge.

Johnston says an evolving market will no doubt lead to new products such as internally geared funds and ETFs leading the alternatives sector, especially if the market becomes a little steadier. Investor demand should lead to greater innovation of products as confidence returns to the manufacturers.

"The one we are watching very closely at the moment are the ETFs, given the size of the market overseas and the acceleration in growth here, the next two years are going to be a watershed for ETFs."

With regards to hedge funds, investor demand for vanilla long/short funds has pretty much remained the same, while areas such as fund of hedge funds and particular strategy fund the demand has slumped.

Investment Trends is a Sydney-based specialist market research organisation in the Australian wealth-management industry, which provides information to over 100 leading financial services businesses.