



Alternative Investments and Enhanced Income Strategies

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What You'll Learn

- Various areas that encompass alternative investing
- How to earn a substantial income return in a low income environment
- How to use relative values to determine optimum times to enter the markets



Traditional Portfolio Investing — Don't Repeat the Mistakes of the Past

	Mix	Projected Return	Overall Return	Crash Return	Expected Return
<u>OLD DAYS</u>					
Equities	60%	x 10%	6.0%	-20%	-12.0%
Bonds	40%	x 5%	2.0%	8%	3.2%
Overall return			<u>8.0%</u>		<u>-8.8%</u>
<u>NEW WORLD</u>					
Equities	60%	x 8%	4.8%	-30%	-18.0%
Bonds	40%	x 3%	1.2%	-10%	-4.0%
Overall return			<u>6.0%</u>		<u>-22.0%</u>



The Market Today

- Equities
 - Bull market that is getting tired
 - P/E – high but not excessive
 - A number of long term signals say the bull is done!
 - Earnings drag from \$\$\$\$
- Bonds
 - Historic low yields
 - Risk of principal loss with rising interest rates
 - Low returning risk



Let's Take a Poll – How Many of You ...

- Invest in individual stocks
- Invest in bonds
- Invest in mutual funds
- Invest in ETFs
- Invest in closed end funds
- Invest in hedge funds

Enhanced Income Vehicles

- Generate greater income
- Accept more historic volatility than bonds
- Potential for permanent capital appreciation (or depreciation)
- Because earning nothing is not an option!

Enhance Income Vehicles

- MLPs (Master Limited Partnerships)
- Mortgage REITs
- BDCs
- Preferred stocks
- Utilities
- Strategic bond funds



Master Limited Partnerships

- Yields of 4-10%
- Risks — toll collectors ... not direct energy exposure — EEP, EPD, WPZ, MMP
- Risks — oil price risk ... energy prices influence earnings — LINE, BBEP, EVEP
- Alternative ways to buy the sector
 - Closed-end funds — 6-7% yield, 8% discount — TTP FIF
 - ETFs — AMLP — 6-7% yield
 - Direct stock purchases 5-7-?%



Mortgage REITs

- Yields of 10+%
- Purchasers of mortgage securities
 - Higher risk when interest rates are rising
 - Live on the yield and do not sell the holdings
- Alternative ways to buy the sector
 - Closed-end funds — 9% yield, 10% discount, 20-30% leverage
 - JMM, BOI, DMO
 - ETFs — REM, MORT, KME — 10% yields
 - Direct investments — NLY MFA, CIM — 11% yields



Business Development Corps (BDC)

- Yields of 10+%
- Purchasers of mortgage securities
 - Higher risk when interest rates are rising
 - Live on the yield and do not sell the holdings
- Alternative ways to buy the sector
 - Closed-end funds — 9% yield, 0% discount, 20% leverage
 - FGB
 - ETFs — BZID, BDCS — 8% yields
 - Direct investments — ARCC, AINV, PSEC, FSC — 8-12% yields



Other Places for Income

- Diversified income
 - Closed-end — FOF — Cohen & Steers Closed End Opportunity Fund 8% yield 9%
 - Strategic Inc Funds — Osterweis OSTFX-5%, Blackrock BIICX-5%
- Real estate & preferred funds
 - Closed-end — RNP — C&S Real Estate 8% yield
- Utilities
 - Closed-end — GLU DPG BUI — 7% yield, 10% disc, 20% leverage
- Preferreds
 - Closed-end — JPS 8% yield, 8% disc, 28% leverage
 - Mutual fund — PSF — 8% yield



Alternative Investment Vehicles

- Covered Call Strategies
- Managed Futures
- Merger – Arbitrage and Acquisition Activity
- Long Short Equity Funds
- Commodity Strategy Funds
- Multi Strategy Funds



Covered Call Strategies

- What is it?
 - Buy a stock
 - Sell a call option to generate income
 - Buy a put option to protect against drops in value
- Where to do it
 - Mutual fund — GATEX Gateway Fund
 - Closed-end funds — 9% yield, 5-10% discount, low leverage
 - ETW — EV Tax Managed Buy-Write Strategy
 - MCN — Madison Covered Call & Eq Strat



Managed Futures Fund

- What is it?
 - Trend following investment approach
 - Buys future contracts in commodities, currencies and indexes
 - Generally has a BETA of close to 0
 - What does that mean?
- Where to do it
 - ETF
 - FUTS (Proshares), FMF (First Trust), WDTI (Wisdom Tree)
 - Mutual funds
 - Five year — AMFAX (Natixis) AQMIX (AQR)
 - One year — EQCHX (Equinox Chesapeake) EVOAX (Altergis)



Mergers — Arbitrage & Acquisitions

- What is it?
 - Buy the seller stock on announced takeover deals
 - Sell the stock of the buyer company
 - May have a BETA of close to .0 (what is that?)
 - Generate a yield to close (like buying a bond before maturity)
- Where to do it
 - ETF — CSMA Credit Swiss Merger Arb Idx, MRGR Merger ETF
 - Mutual funds
 - Merger Fund (MERFX)
 - Arbitrage Fund (ARBFX)
 - Touchstone Merger Arb Fund (TMGAX)



Long — Short Equity Funds

- What is it?
 - Buy stocks long and sell stocks short – (Coke vs Pepsi)
 - Sell one stock the stock of the buyer company
 - Usually have a BETA of .50
 - Tough sledding the last few years
- Where to do it
 - Mutual funds
 - Glenmeade Total Market L/S (GTTMX)
 - Nuveen Long Short Equity Fund (NELIX)
 - Diamond Hill Long Short (DIAYX)



Commodity Strategy Funds

- What is it?
 - Buy commodities
 - Could include oil, metals, farm, currency
 - Usually have a very low BETA
 - Very tough sledding the last few years
- Where to do it
 - ETFs – DBC (Powershares) USCI (US Commodity Indx)
 - Mutual Funds PIMCO Commodity(PCRIX) Blackrock Commodity Strat (BCSAX) Compass EMP Comm Strat (CCNIX)
 - Closed End Funds – Blackrock (BCX) 13% discount



Multi Strategy Funds

- What is it?
 - Invest in All of the Prior Investments
- Where to do it
 - ETF's
 - IQ Hedge Strategy Tracker (QAI)
 - Proshares Morningstar Alternatives Solution ETF (ALTS)
 - Mutual funds
 - Absolute Manager Multi Manager Fund(NABIX)
 - Gugenheim Multi Hedge Strat I (RYMTX)
 - Russell Multi Strategy Alternative Fund (RMSAX)



Conclusion — The Portfolio Mix for the Next Market Cycle

- Equities — traditional diversified 30-40%
- Fixed income — traditional conservative 10-20%
- Alternative strategies funds 20-30%
- Enhanced income strategies 25-35%

Remember ...

- Alternatives may just be low risk, high cost, low return strategies
- Enhanced Income is much more volatile than traditional bonds so you need to find good entry points on acquisitions and recognize the risks



Questions?

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