

# RYDEX | SGI FINANCIAL ADVISOR ALTERNATIVES SURVEY **Winter 2010**

**National Survey Finds that Financial Professionals Believe Traditional Asset Allocation Strategies are Inadequate for Portfolio Diversification, Want to Increase Their Knowledge and Their Use of Alternative Investments.**

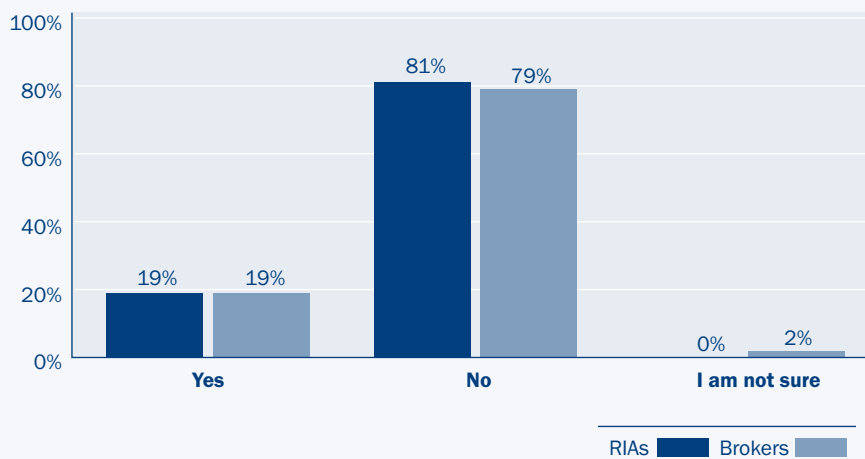
In the wake of one of the worst market environments in recent memory, ensuring that portfolios are adequately diversified to weather diverse market conditions is now top of mind for advisors. The majority of financial professionals believe that alternative investments will play an increasingly important role in portfolio construction going forward. In a recent survey of 291 financial professionals (100 RIAs, 94 independent brokers\* and 97 wirehouse brokers) conducted online in November-December 2009, Rydex|SGI explored financial professionals' attitudes about, usage of, interest in and knowledge of alternative investments.

## Attitude and Awareness

- Most RIAs (81%) and brokers (79%) surveyed believe that traditional asset allocation (stocks, bonds, cash) provides insufficient portfolio diversification.

Chart 1

### Does Allocation to the Traditional Asset Classes Provide Adequate Diversification



\*The term "broker" refers to both independent broker/dealers and wirehouse financial professionals.

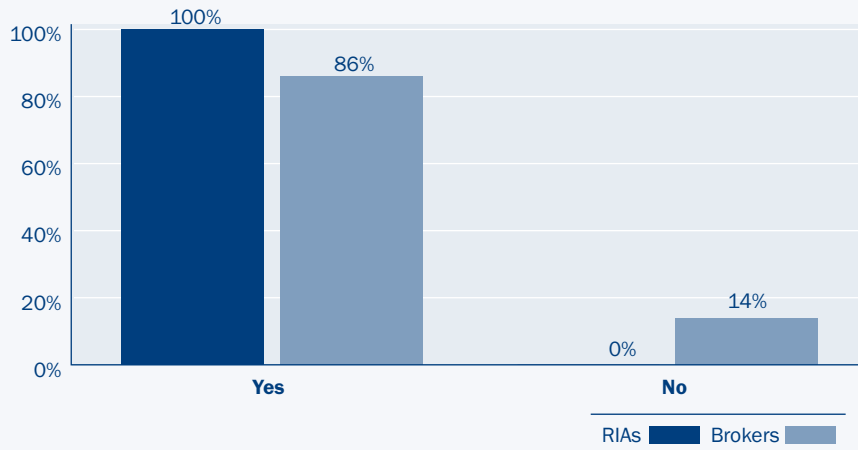
- Contrary to popular opinion, financial professionals are not simply looking at alternative investments as a source of outsized performance. The majority of RIAs (81%) and brokers (78%) cited diversification as the main driver of alternatives usage—only 6% of RIAs and 25% of brokers see alternatives as high-return, high-risk vehicles.
- Most RIAs (61%) and brokers (53%) advocate using alternatives for many clients. However, 26% of RIAs and 35% of brokers think alternatives should be used for a select few clients.

## Education

- Financial professionals are very interested in enhancing their alternatives knowledge. Universally, RIAs want to improve their knowledge of alternatives. In addition, 86% of brokers said they would carve out time to learn more about using alternatives.

Chart 2

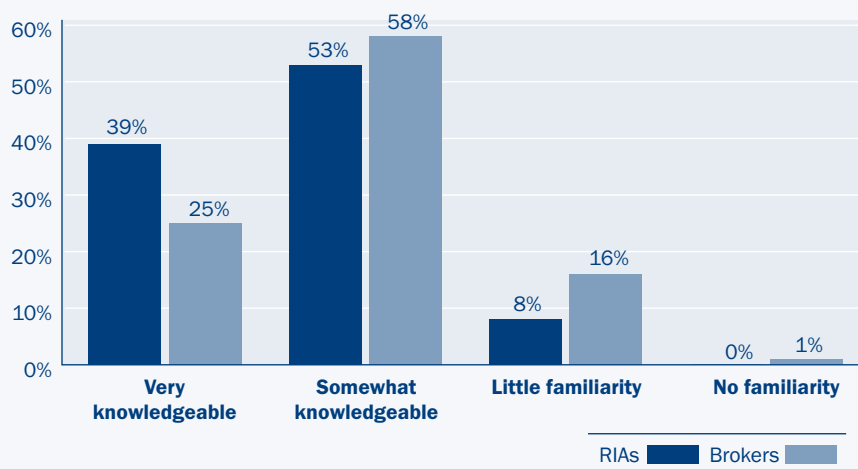
**RIA and Broker Willingness to Learn More About Using Alternative Investments**



- Usage and awareness is in an “adolescent” phase for RIAs and an “infancy” phase of knowledge for brokers. RIAs have higher alternative product knowledge compared to brokers—39% of RIAs surveyed said they were “very knowledgeable” about alternatives compared to a fourth of brokers (25%). The majority of both RIAs (53%) and brokers (58%) rated themselves as “somewhat knowledgeable” on alternative investments. Only 8% of RIAs say they are a “little familiar” with alternatives, compared to 16% of brokers.

Chart 3

**RIA and Broker Level of Knowledge of Alternative Investments**



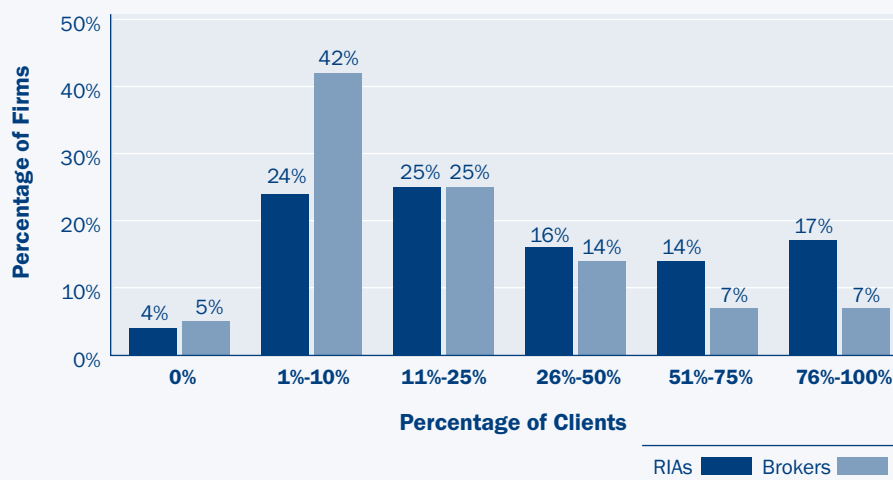
- There is great demand for additional education—all RIAs are planning on learning about alternatives. When asked what methods RIAs would prefer for education about alternatives, the majority (76%) said they would like to see web-based materials. Also, the majority (60%) of RIAs would prefer direct discussions with wholesalers and materials provided by wholesalers (63%) to learn about alternatives.

## Advisor Product Usage and Fees

- The majority of RIAs and brokers currently use alternatives in their client portfolios—only 4% of RIAs and 5% of brokers surveyed do not yet have clients invested in alternatives. While nearly one third (31%) of RIAs have at least half their clients invested in alternatives, the majority (72%) of brokers have less than a quarter of their clients invested in alternatives.

Chart 4

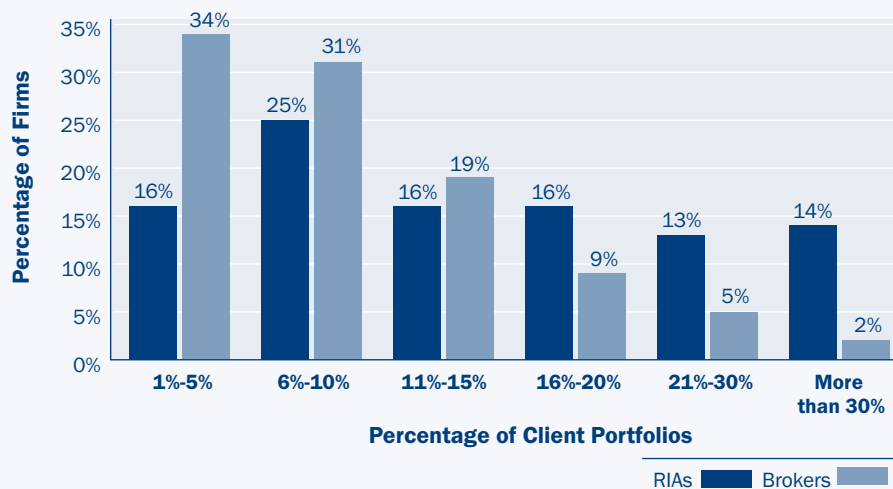
Percentage of Clients Invested in Alternative Investments



- RIAs have higher alternative product usage compared to brokers. Ninety-six percent of RIAs use alternative investments and all independent advisors will likely use them in the future. More than a quarter (27%) of RIAs have at least 21% of their client portfolios in alternatives and almost half (41%) of RIAs have between 1% and 10% of their client portfolios in alternative investments. Alternatives represent only a small portion of buy lists for brokers. More than half (65%) of brokers have 10% or less of their client portfolios in alternative investments.

Chart 5

Percentage of Client Portfolios in Alternative Investments



- Currently, the top three most used alternative strategies are real estate, commodities and absolute return for both RIAs and brokers.
- The top three alternative strategies RIAs are interested in exploring are commodities (48%), absolute return (46%) and REITs (43%) while brokers are interested in absolute return (46%), currencies (44%) and commodities (40%). For half of the brokers surveyed (50%), absolute return products mean a risk-reduced strategy.
- Nearly half of RIAs (42%) as well as brokers (42%) said mutual funds are the preferred vehicle for investing in alternatives. ETFs were ranked second as a preferred structure by 35% of RIAs and 35% of brokers.
- Both RIAs (44%) and brokers (29%) rank risk/volatility characteristics as the most important feature when considering an alternative product—performance is secondary.
- Most RIAs (59%) and brokers (58%) expect fees on alternative products to be greater than those of equity mutual funds or ETFs. Most RIAs (67%) and brokers (68%) are willing to pay an incentive fee based upon performance.

## Client Profile and Risk Tolerance

- The majority of broker/dealer firms (83%) have additional client risk-profiling requirements when investing in alternative investments.
- Half of brokers surveyed (50%) feel that the more aggressive a client's risk tolerance, the greater the allocation to alternatives.



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*Security Global Investors in conjunction with Amplitude Research® conducted this survey of financial professionals in November-December 2009. The survey was conducted with 291 financial professionals (100 RIAs, 94 independent brokers and 97 wirehouse brokers.) RIA participants had investable assets of more than \$100M. This data is for informational purposes only. Amplitude Research® is not affiliated with Security Global Investors. Although Security Global Investors believes the information from this organization is correct, it cannot, and does not, guarantee or warrant the completeness or suitability of this information.*

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