WELLS FARGO
Investment Institute

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Alternative Investing

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

Diversification, including different asset classes, generally has been an effective strategy to help manage risk or volatility in a portfolio.

But there are ways to enhance diversification of your portfolio beyond the traditional mix of stocks, bonds, and cash.

The missing piece for qualified investors could be alternative investments.

Alternative investments is a label for investments that are not traditional investments like publicly traded stocks, bonds, and cash. They include non-traditional vehicles like hedge funds, private capital, and real assets.

Since alternative investments, ordinarily, do not solely track with stock and bond markets, incorporating them in your portfolio may provide benefits, such as, reduced volatility, protection from down markets, and exposure to new growth opportunities.

Adding alternative investments to a traditional portfolio can enhance diversification and potentially provide improved risk-adjusted returns.

To learn about the benefits of alternative investments in your portfolio, read our Wells Fargo Investment Institute report “Alternative thinking,” or talk to a Wells Fargo financial professional.

Risk Considerations

Diversification does not guarantee profit or protect against loss in declining markets.

All investments are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors due to numerous factors some of which may be unpredictable. Be sure your clients understand and are able to bear the associated market, liquidity, credit, yield fluctuation and other risks involved in an investment in a particular strategy.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities. Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates.

Alternative investments, such as hedge funds and private capital/private debt strategies and private real estate funds, are not appropriate for all investors. Any offer to purchase or sell a specific alternative investment product will be made by the product's official offering documents. Investors could lose all or a substantial amount investing in these products. Some alternative strategies may expose investors to risks such as short selling, leverage risk, counterparty risk, liquidity risk and commodity price volatility risk. In addition, alternative strategies engage in derivative transactions. Short selling involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the fund. In addition, taking short positions in securities is a form of leverage which may cause a portfolio to be more volatile. Derivatives generally have implied leverage and may entail other risks such as liquidity and interest rate and credit risks. Successful hedging strategies may require the anticipation of future movements in securities prices, interest rates and other economic factors. No assurance can be given that such judgments will be correct.

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