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GLOBE ADVISOR WEEKLY NEWSLETTER

Advisors ‘should consider alternative’ investments regardless of what happens in the stock markets

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This is the new Globe Advisor weekly newsletter for professional financial advisors, published every Friday. If someone has forwarded this newsletter to you via e-mail, or you’re reading this on the web, you can register for Globe Advisor, then sign up for this newsletter and others on our newsletter sign-up page.

The recent stock market downturn has advisors revisiting strategies that could protect investors from losing a chunk of their portfolios’ value. For some, the answer is alternative investments such as private equity and debt, real estate and infrastructure.

Institutional investors have invested in alternatives for decades, but they have become more accessible to retail investors through various funds in recent years.

Mackenzie Investments recently launched Mackenzie Northleaf Global Private Equity Fund, its fourth private markets offering in partnership with Northleaf Capital Partners Ltd.

Globe Advisor spoke with Michael Schnitman, head of alternative investments at Mackenzie, about alternatives and why advisors should be considering them as part of their clients’ portfolios.

What exactly are alternative investments?

Alternatives, at a high level, fall into three buckets: alternative strategies, meaning those that use shorting or leverage as tools for their investment approaches; alternative assets, which are non-traditional asset classes such as real estate and commodities; and private markets, including private equity, private credit, private infrastructure and specialty finance.

Why should advisors be incorporating alternatives into their clients' portfolios?

We feel that it's essential for retail investors to have access to private markets.

Alternatives are important because they can help dampen the volatility in an overall portfolio and they can extend the opportunity set for investors. They provide strong expected returns and lower volatility, untapped diversification and institutional quality management. Consider that publicly traded companies represent only about 2 per cent of global companies, which means 98 per cent of them are private. That in itself demonstrates the opportunity of private markets for retail investors.

What are the risks?

With any investment, manager selection is a risk. You have to look for managers who are experienced with a longstanding repeatable investment process and who know how to invest over different market cycles. There is also liquidity risk with private assets. You can't get in and out of these funds on a daily basis.

How should advisors use alternatives in clients' portfolios?

How they're used depends on what their advisor believes is most appropriate for a client given their age and overall financial plan. Whether they should have more credit or more infrastructure or more equity – or equal slices of all three – that's up to the advisor.

How should advisors use alternatives amid the current stock market downturn?

Advisors should consider alternatives regardless of what they think will happen in the stock markets.

For example, if your view is that we're in for high volatility and declining stock markets, longer term, then you want to be in private equity, which has always exhibited significantly less downside and lower volatility than publicly traded securities.

If your view is that this is just a blip, a short-term correction that will be followed by significant growth over the next nine to 18 months, then you also still want to be in private equity, but for very different reasons. If you believe stock markets are going to take off again, private equity has always exhibited hundreds of basis points of outperformance versus publicly traded indexes.

So, when you infuse private market strategies into an overall portfolio construction or asset allocation, you have a smoother risk profile.

This interview has been edited and condensed.

- Brenda Bouw, special to the Globe and Mail

Must-reads from Globe Advisor this week

Major asset managers want a bigger share of thematic ETF market

Thematic exchange-traded funds (ETFs), which have seen dramatic growth over the past decade in North America, are poised to explode in popularity in the coming years. These funds, which focus on market niches versus traditional industry sectors, have been the playground for smaller, startup firms. But giant asset managers now want a bigger slice of this pie. Shirley Won reports on the new trends that have resulted in products and what players like BlackRock Inc. plan for this space.

Top reasons why the CRA may review or audit tax returns

If the 2022 tax season is like most years, about three million Canadians will receive a notice from the Canada Revenue Agency (CRA) that their income tax returns are being reviewed. In most cases, the review will request supporting documentation for a specific claim, deduction, or income amount. But the CRA does conduct reviews according to an undisclosed scoring system that identifies returns with "the highest potential for inaccuracy." Dale Jackson digs deeper into which scenarios would most likely grab the attention of the government.

How the automotive supply chain crisis is an opportunity

Collapses in the global automotive supply chain have spawned a crisis among carmakers, but experts say the same issue now represents a rare chance to get into the sector long-term. Gains in production efficiency, combined with pent-up consumer demand and the elimination of costly dealer incentives, have allowed automakers to expand profit margins and focus more production on higher-margin vehicles. Jameson Berkow reports on how investing in a phase of heavy contraction can reward investors when stocks outperform "wildly" in a recovery.

How to navigate the emotional minefield of transitioning the family cottage

For many Canadians, the family cottage is much more than a financial asset – it's home to years of cherished memories and a much-needed respite from busy city living. Even asking the question – "What will we do with the family cottage?" – evokes powerful emotions from family members. Alexandra Horwood of Richardson Wealth breaks down why family dynamics, affordability, maintenance, scheduling and spouses all need to be considered when transferring the property to children.

Also see:

How runaway inflation is affecting the income needs of 'FIRE' adherents

How families can make the most of reduced child-care fees

Why the investment industry's process of creating financial plans is backward

Reasons why the tech stock crash may be far from over

The crypto shake-out shows boring is back

What you and your clients need to know

Regulator rules PI Financial owner obtained loan fraudulently

Canada's securities watchdog has found that Gary Ng, the former owner of PI Financial Corp. and a former co-owner of Bridging Finance Inc., committed fraudulent conduct with loans he used to finance the purchase of several investment advisory firms. The Investment Industry Regulatory Organization of Canada published a notice this week saying a penalty hearing for Mr. Ng is scheduled for May 27. Clare O'Hara and Greg McArthur report on the fallout from the case.

How to control your emotions as markets tumble

Perhaps the most important part of investing is being able to manage your emotions. When markets aren't in the news, we rely on our brains. When markets are flashing red, our stomachs can take over. Preet Banerjee of Wealthscope shares mental scripts and examples to help manage emotion and stick to your investment plan.

Regulator to tighten mortgage-HELOC rules to curb rising debt

The trendiest type of home equity line of credit is in the crosshairs of Canada's banking regulator, which is looking to curb risky borrowing as rising interest rates put added pressure on heavily indebted homeowners. The product under scrutiny is the readvanceable mortgage – a traditional mortgage combined with a line of credit that increases in size as a customer pays down the mortgage principal. James Bradshaw and Rachelle Younglai explain why the regulator is keeping a close eye on this combined loan program.

- Globe Advisor Staff