

1

AAII PRESENTATION
(JULY 18, 2009)

ALTERNATIVE INVESTING
FOR
THE INDIVIDUAL INVESTOR

SKIRBALL CENTER
LOS ANGELES, CA

Presented by:

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LOS ANGELES CHAPTER, AAI

2

IT IS BETTER TO BE

APPROXIMATELY
RIGHT

THAN

PRECISELY
WRONG

JOHN MAYNARD KEYNES
BRITISH ECONOMIST

AVERAGE PROFILE
OF
AAII INDIVIDUAL INVESTORS

- **INVESTORS**
- **MAKE OWN INVESTMENT DECISIONS**
- **\$400K TO \$2 MILLION APPROX.**
- **45 TO 75 YEARS OLD**

- **TIME HORIZON (*VARIABLES*)**
- **RISK AVERSION (*VARIABLES*)**
- **INVESTING EXPERIENCE (*VARIABLES*)**

- **INVESTING IS PART-TIME ACTIVITY**
- **PROFESSIONALS / COLLEGE EDUCATION**

● Traditional Financial Investments

● Alternative Investing

● Why Do We Need Alternative Investing

AVERAGE ANNUAL TOTAL RETURN

(PRICE CHANGE + DIVIDEND REINVESTED)

S&P 500 INDEX

(72 YEARS)

NOMINAL
% INCREASE

1928-1929	17.6
1930-1939	5.3
1940-1949	10.3
1950-1959	20.8
1960-1969	8.7
1970-1979	7.5
1980-1989	18.2
1990-1999	18.8

LONG MARKET CYCLES

1882 - 1999

Gail Dudack, Dudack Research (MIDWOOD SECURITIES)
(S&P 500 AV. ANNUAL TOTAL REAL RETURN OVER LONG MKT. CYCLES)

<u>YEARS</u> <u>OF CYCLE</u>	<u>NO. OF YRS.</u> (118 TOTAL)	<u>REAL RETURNS/YR.</u> (WITH DIVIDENDS)
1882 - 1897	16	3.50%
1898 - 1902	5	17.00%
1903 - 1921	19	1.00%
1922 - 1929	8	28.50%
1930 - 1949	20	3.50%
1950 - 1966	17	14.00%
1967 - 1982	16	0.50%
1983 - 1999	17	16.00%
*****	*****	*****

NEXT LONG MARKET CYCLE	IS TBD
2000 - APR. 2009	9.3 MINUS 5.00%
2000 - 2016?	17 ? 0.50% ??

GAIL DUDACK ESTIMATES "IT COULD TAKE UNTIL 2016"
FOR S&P 500 TO REACH THE YEAR 2000 PEAK OF 1550,
(S&P 500 VALUE WAS 858 ON APRIL 2009)

7

UNKNOWN UNKNOWNNS

(DONALD RUMSFELD)

BLACK SWANS

(NASIM TALEB)

EVENTS, MY BOY, EVENTS!

(HAROLD MACMILLAN)

- *PASCAL'S WAGER*

(REASON VS. BELIEF)

(BLAISE PASCAL, 1623-1662)

- *IT IS NOT CERTAIN THAT
EVERYTHING IS UNCERTAIN*

S&P 500

(IN ABNORMAL TIMES)

V U

W L

“BATHTUB”

(NOURIEL ROUBINI)

“INVERTED
SQUAREROOT SIGN”

(GEORGE SOROS)

FIXED INCOME
INVESTMENTS

(FROM: SCHWAB BOND ONE SOURCE™)

ARE SUBJECT TO:

- CHANGES IN INTEREST RATES
- CREDIT QUALITY
- MARKET VALUATIONS
- LIQUIDITY
- PREPAYMENTS
- EARLY REDEMPTIONS
- OTHER FACTORS
(TAXES, CURRENCIES, ETC....)

MITIGATING RISK

TRADITIONAL INVESTING FOR THE MASSES

- ASSET ALLOCATION
- DIVERSIFICATION
- MARKET TIMING
- STOCK &/OR SECTOR PICKING

ALTERNATIVE INVESTING FOR THE WILLING

- HYBRIDS: REIT's, SOME ETF's
- EXOTIC FINANCIAL ASSETS
- REAL ASSETS:
 - (A) ASSURED CASH FLOW
 - (B) NO CASH FLOW

COMBINATIONS OF THE ABOVE

11

INVESTING ADVANTAGES OF REAL ASSETS

- LEVERAGE**
- TAXES**
- ASSURED CASH FLOW**
- MANAGEMENT EXPENSES**
- CIRCLE OF COMPETENCE**
- POST-RETIREMENT**

TOTAL PORTFOLIO RISK

DIVERSIFICATION

(IN ONE MKT.):

- CORRELATION IN ABNORMAL TIMES
- INSTITUTIONS VS. BILLIONAIRES
VS. AAI MEMBERS
- NECESSARY BUT NEVER SUFFICIENT

COMPARTMENTALIZATION

(FOR MANY MKTS.):

- CATASTROPHIC FAILURES
- BASIC PORTFOLIO STRUCTURE
- NECESSARY AND ALMOST SUFFICIENT

NOT EVERYTHING
THAT COUNTS

CAN BE COUNTED

&

NOT EVERYTHING
THAT CAN BE COUNTED

COUNTS

ALBERT EINSTEIN