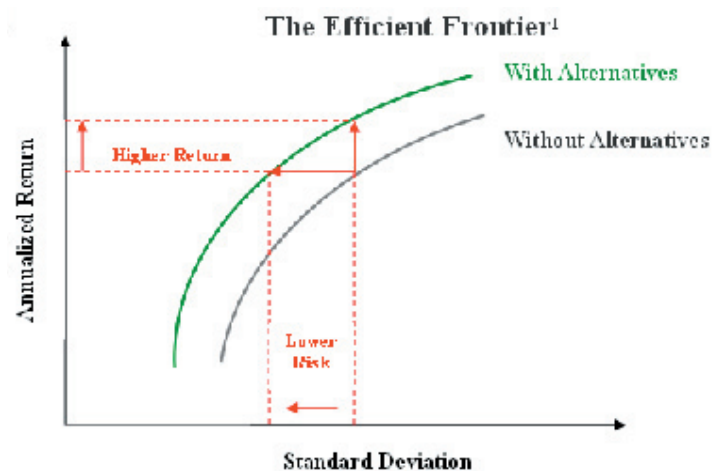


Alternative investments are typically thought of as any investment product other than traditional investments, such as stocks, bonds or cash. Adding an alternative component to a traditional investment portfolio can potentially increase overall return, reduce portfolio volatility, hedge market risk and reduce the effect of global market correlations. Scott & Stringfellow offers you many different ways to invest in alternatives.

What is the appeal of investing in alternatives, and why have endowments, institutional and high net worth investors chosen to allocate money to these strategies? Here are some of the reasons:

- **Low correlation among assets:** Over long time frames, alternative strategies tend to exhibit fairly low correlations to equities, and a low or negative correlation to fixed income. In other words, their movement is not tied to either equities or bonds. Combining assets that do not exhibit a high correlation to one another provides investors an opportunity to reduce risk without sacrificing return.
- **Attractive risk-adjusted returns:** The efficient frontier represents those portfolios that are considered the most efficient or having the greatest return for a given level of risk. The traditional efficient frontier asset mix (without alternatives) shown below may not offer sufficient return for a given level of risk. Adding alternative strategies to the portfolio can help shift the efficient frontier, thus offering a higher rate of return for a given level of risk or lower risk for the same return.



Source: [Calmar PEP](#)

¹ Example is for illustrative purposes only and actual results will vary.

- **Access to talent:** Talented investment professionals all over the world have gravitated to the alternatives sector in large part because they can enjoy the following benefits: incentive compensation, greater breadth of investment instruments and strategies, and the ability to capitalize on the benefits of taking less-liquid positions. When you combine the expertise of a highly motivated manager with the freedom to utilize a wide array of investment strategies, you create an environment conducive to attractive returns.

As with any investment (traditional or alternative), there are inherent risks. Some of the key considerations when investing in alternatives include limited transparency of investment holdings, limited liquidity, and the use of leverage (borrowed money) to amplify the potential return on an investment.

Don't be surprised if your alternative investment lags your traditional investments in a bull market. By potentially limiting losses during bear markets, though, alternative investments can give you better overall returns in the long run as those savings are compounded over time.

Ways to Invest in Alternatives

Here's a brief look at some of the ways you can add alternative assets to your portfolio. The purest way to access alternatives is a direct investment in one or more of the following:

Hedge Funds – partnerships that pool investors' money to invest in a range of investments (e.g., equities, fixed income, commodities and currencies), but unlike traditional investments, hedge funds also employ derivatives, futures, options and swaps. These hedging instruments are used to manage risk.

Managed Futures – systematic trading of global futures markets based on sophisticated quantitative analysis and advanced technology.

Private REITs – Real Estate Investment Trusts that own income-producing commercial real estate in a non-publicly traded structure.

In the past few years, we have also seen the emergence of mutual funds that employ hedge fund replication strategies in an effort to provide the attractive risk-adjusted returns of their direct investment brethren. The mutual fund vehicle offers increased liquidity, lower minimum investment, and lower costs, but the investment strategies allowed inside the product are limited compared to an actual hedge fund or managed futures fund.

Another way to add alternative investment exposure to the portfolio is through the use of Exchange Traded Funds (ETFs). Exposure to currencies, commodities, real estate and other non-traditional investments can now be achieved in a low-cost, highly liquid investment product. Investors can even double or triple their daily exposure to certain markets through the use of leveraged ETFs. Keep in mind that ETFs, which are designed to track an underlying benchmark, are not actively managed like direct investments.

This material is for informational purposes only and is not a solicitation of an order to buy or sell securities. Past performance is no guarantee of future results. Hypothetical examples are for illustrative purposes only and are not intended to represent the past or future performance of any specific investment. Diversifying investments does not ensure against market loss. Scott & Stringfellow and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences. Scott & Stringfellow, LLC, member NYSE/FINRA/SIPC, a wholly-owned nonbank subsidiary of BB&T Corporation. Securities and insurance products or annuities sold, offered or recommended are not a deposit, not FDIC insured, not guaranteed by a bank, not insured by any federal government agency and may lose value. Although these and other similar alternative investments can provide benefits to many portfolios, they are not without their risks and challenges and are definitely not appropriate for all investors. Alternative investments are sold to qualified investors only by a Confidential Offering Memorandum or Prospectus. Alternative investments provide limited liquidity and include, among other things, the risks inherent in investing in securities and derivatives, using leverage and engaging in short sales. An investment in an alternative investment fund is speculative, involves substantial risk, and should not constitute a complete investment program. An alternative investment fund may be highly leveraged. The volatility of the price of its interests may involve complex tax structures and there may be delays in distributing important tax information. These funds may not be subject to the same regulatory requirements as mutual funds, and their fees and expenses may be high. Regarding ETFs, carefully consider a fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the fund's prospectus. Read the prospectus carefully before investing. Investing involves risk, including possible loss of principal.