**Alternative Investments: Non-Correlated Assets for a Better Portfolio**

**“Some people don’t like change, but you need to embrace change if the alternative is disaster.”**

*– Elon Musk*

*[](http://partners4prosperity.com/wp-content/uploads/2017/05/Diversify.jpg)*

Investors have short-term memories, which is why so many cling to the stock market, even when it’s on a downward trend, or overdue for a correction.

If you have lost confidence in the market, or are simply looking for WHERE you can invest *OUTSIDE* of the stock market—safely and profitably—you’re not alone.

So why do even nervous investors still cling to mutual funds and stocks? We think it’s due to one of these reasons:

1. **“Already made up my mind.”** They aren’t open-minded to try something new, even if they are unsatisfied with their current strategy.
2. **“Risk equals reward.”** People mistakenly believe that the stock market roller coaster ride is *required* if they want to earn a good rate of return in the long run. (We’ve been well-conditioned to believe this! See this ProsperityPeaks.com article about the insanity of [risk assessment profiles](http://www.prosperitypeaks.com/risk-assessment-questionnaire/).)
3. **“You don’t know what you don’t know.”** Some investors just aren’t *aware* of other options. They lack the knowledge, confidence, and guidance to seek better alternatives.
4. **“What will they say?”** People have relationships with investment reps, planners, and advisors who don’t offer alternative investments (or who actively steer their clients away from them because they don’t understand them, don’t sell them, or both.)
5. **Inertia.** Sometimes, people have educated themselves and want to try alternatives, but it’s easier to put it on your “to do later” list and convince yourself that the sky really isn’t falling (at least not yet), so why not just avoid the topic with your planner, spouse, parents or friends who aren’t as open minded as you a little while longer?

Let’s face it: typical financial advice tends to give very limited options, fixating on “how much of your portfolio should be in stocks, and how much in bonds.”

We say, “Neither of the above!” Stocks and mutual funds ultimately rely on speculation, and bonds (depending on if you’re talking high quality bonds or junk bonds) range from “risky with fair returns” to “safe with weak returns.”

*[](http://partners4prosperity.com/wp-content/uploads/2017/05/Risk-assessment.jpg)Are you really stuck between high risk and low returns, as typical financial planning would have you believe?*

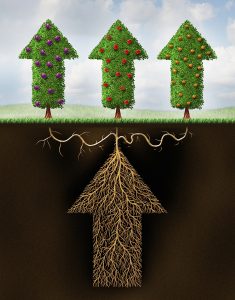
No, you’re not!

Investments that are now considered "alternative" (because they are not the stock market) have been helping people build wealth for decades, even centuries before the financial planning industry even existed.

I never want to have to explain to a client why they lost money! For this reason, I only recommend assets which I believe to offer protections against loss of principle, and non-correlated investments that don’t rise and fall along with the stock market.

Below I list some of our favorite investments *not* correlated to the stock market. These investments have generated healthy single digit and low double digit returns for clients, *without* the roller-coaster ride of stocks.

**Life Settlements: An excellent investment for growth non-correlated with stocks**

[](http://partners4prosperity.com/wp-content/uploads/2017/05/Diversification.jpg)For those looking for excellent asset *growth* with minimal risk, life settlements are a very attractive option, offering investors a way to participate in the secondary market for life insurance policies.

Just as real estate deeds of trust can be bought and sold, so life insurance policies and the assets they represent are bought and sold on the secondary market. Life insurance has been considered an asset class since a Supreme Court ruling in 1911 judged that life insurance policies are private property that can be assigned or sold to others at the will of the policy owner.

Life settlements invest in life insurance by purchasing policies that have become unwanted, unneeded, or unaffordable to elderly policyholders. In this way, they represent a true “win-win” scenario. Policyowners nearing life expectancy are able to turn a death benefit into a *living* benefit they can use now. At the same time, investors are able to *purchase* an asset with a guaranteed future value, rather than *grow* an asset with an unknown, perhaps even lower future value.

Although most investors have never heard of life settlements, they have been used in institutional investing for decades. Some of the reasons life settlements have grown in popularity include:

1. **Returns are non-correlated.** Life settlement investments are not correlated to interest rates, housing prices, stock prices, political events, or any outside influences.
2. **Very limited downside risk.** Life settlements are based on actuarial math, not stock market speculation. As policies are purchased for a discount and costs such as future premiums are factored in, losses are unusual.
3. **You're in good company.** Results of course vary and are not guaranteed. However, sources such as [TheDeal.com](http://www.thedeal.com/league-tables/life-settlements/) have confirmed that Berkshire Hathaway and Bill Gates, along with major institutional investors, have invested hundreds of millions in life settlement portfolios.
4. **High Safety.** Life insurance companies are among the strongest financial institutions in existence. Only seasoned policies are purchased for life settlements, and death benefits are *always* paid when the time comes.

Formerly for institutional investors only, there are now options for accredited  investors (with a net worth of 1 million and cash flow of $200k or $300k for couples) to purchase private equity funds that hold life settlements.

As with any investment, it is important to understand how it works and who it is best suited for. Life settlements are not liquid and the investment time frame and exact rate of return fluctuate. Required minimum investment with our life settlement partners currently begins at $100,000, and money is typically invested for 7-10 years.

**Commercial Bridge Loans: Our Top Investment for Cash Flow**

Bridge loans on commercial and investment property can be an excellent choice for investors looking for immediate, steady, substantial income. Bridge loans allow investors to capitalize on real estate without the hassles of being a landlord.

Also known as “hard money loans,” sometimes they are “rehab loans” as well (though not always), bridge loans provide temporary financing (typically 6 months to 3 years) at higher-than-typical interest rates.

Real estate investors are eager to secure these higher-interest loans from private lenders because it has gotten more difficult to obtain financing for anyone with less than perfect credit. Bridge loans are often short-term loans made to other investors and business owners who need temporary financing and can demonstrate an ability to pay, or occasionally on lease-to-own homes.

Investing in carefully screened commercial mortgages and bridge loans can provide you with reliable monthly income with high single-digit and even low double-digit returns, with low risk... provided that the loans are properly vetted and sources.

There are many benefits of becoming a private lender for bridge loans that make it worth serious consideration for anyone who needs income:

1. **Reliable:** Monthly income payments may come directly from the company that sources the loans, not the borrower. In some cases, the company that sources and services the mortgages even holds a secondary interest to assure your best interests are represented.
2. **Secure:** Assets are backed with real-world assets, often secured by first position deeds of trust. Loan-to-value never exceeds 65% and is often lower, allowing for market fluctuations. Properties are valued by experienced professionals and borrowers are also vetted.
3. **Limited Risk:** Although private investment mortgage funds can provide income for years, the underlying notes are held short-term (usually one year) to minimize risk in the event of a market downturn. And in the case of foreclosure, properties are sold to recoup investor's equity.
4. **Healthy Returns:** Private lenders (investors) working with us typically earn a minimum of 7% and a maximum of low double digits, depending on if you are accredited and what is available at the moment that is a “fit” for you.
5. **Flexible:** Bridge loan notes and funds can be held in a self-directed Roth IRA for tax-free income (within your IRA or in your pocket, if you are over 59-1/2). Funds can usually be rolled over into new loans for continued cash flow.

The downsides to bridge loans are that there is quite a learning curve to finding and managing your own loans, and when working with other lenders, not all operate according to industry best practices that make protecting your principal a top priority. (We ask a lot of questions of our providers and are choosy who we refer to!)

**Four More Ways to Invest Outside of the Stock Market**

**1. Direct Real Estate Investments**

**[](http://partners4prosperity.com/wp-content/uploads/2017/05/real-estate-investing-cash-flow.jpg)**Cash-flowing rental properties are a time-tested way to build wealth. Being a landlord can be time-intensive but rewarding. Some basics:

1. **Start small** (perhaps renting out your old home when buying a new one;
2. **Crunch the numbers**, always focusing on cash flow and not speculating on and counting on appreciation;
3. **Get good help and advice**, from a real estate attorney to a great handyman; and
4. ***Always* have adequate cash for the unexpected.** (See #4 below for our favorite place to store cash.)

**2. Fractional Real Estate Investing**

Accredited investors will find an opportunity to invest directly in commercial real estate by becoming private lenders for commercial projects, typically cash-flowing apartment buildings.

These types of investments offer qualified investors cash flow as well as equity, and help real estate investors avoid the most common (and most costly!) real estate investing mistakes, such as limiting themselves only to properties in their local area, not evaluating enough properties before purchasing, not forecasting future costs accurately or managing the properties effectively.

**3. Peer Lending**

[](http://partners4prosperity.com/wp-content/uploads/2017/05/peer-lending.jpg)Also called “peer to peer lending” or “P2P,” peer lending cuts out the middleman – the banks and credit card companies – and allows people to lend using online websites such as [Prosper.com](https://www.prosper.com/) and as [LendingClub.com](http://lendingclub.com/).

For those who are just starting out, peer lending offers a way to start investing in a hands-on way, investing as little as a few hundred dollars. (At $25 per loan, you’d want to have your dollars in at least 10-20 loans.)

Returns are generally in the high single digits or low-double digits. We hear that people who are actively choose loans tend to do better than those who allow their portfolios to be randomly selected.

**4. High Cash Value Life Insurance**

Life insurance is not an investment,” per say, but it is an excellent place to store cash while also providing permanent protection for a family. Life insurance has also become a top asset purchased by banks, known as BOLI ( bank-owned life insurance) by the *billions* in recent years as part of their Tier One assets.

Whole life policies constructed for maximum cash value are particularly attractive when one or more of the following is true:

1. **You want long-term savings.** You desire to build equity and liquidity in a long-term savings vehicle that can outpace inflation;
2. **You value liquidity.** You want the flexibility of being able to temporarily borrow against your savings for major expenses, emergencies, or lucrative opportunities;
3. **Increased life insurance protection is desired.** Because death benefits are permanent and grow with time, families with term life insurance are wise to replace their term with permanent whole life policies as they are able.
4. **Multi-generational wealth is valued.** (There are valuable benefits to insuring adult children and grandchildren as well as yourself.)

An excellent primer on how whole life insurance can be an ideal *foundation* of a larger wealth-building strategy is Kim D. H. Butler's [*Live Your Life Insurance*](http://amzn.to/2r2FC2S)*.*

Now that you understand some of the best options for saving and investing using alternative investments...

**Is it time for you to invest beyond the stock market?**

[Prosperity Economics](http://www.prosperitypeaks.com/) helps people build wealth without Wall Street or the big banks. We educate people about new ways to invest and help them SUCCEED in saving, creating income, growing assets and reducing risk… by investing *outside* of the stock market.

When it comes to diversifying outside of the stock market with alternative savings and investment vehicles, that is our specialty! Contact us with any questions, or for help in sorting through your options and which might be a fit for your situation.

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