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Financial Advisory Firms' Strategies for Diversifying and Growing Clients' Portfolio

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This is to certify that the doctoral study by

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has been found to be complete and satisfactory in all respects,
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Abstract

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by

Gerald House

MS, Southern Wesleyan University, 2006

BA, Augusta University, 1991

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

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Abstract

Less than half of all U.S. households have some form of retirement assets. Advisors who fail to use alternative investment strategies may not accumulate enough retirement assets for their clients. Grounded in Markowitz's modern portfolio theory, the purpose of this qualitative multiple case study was to explore alternative investment strategies financial advisors use to enhance the growth and diversification of their clients' retirement assets. Data were collected from semistructured interviews and company documents from 4 financial advisors in Georgia and South Carolina who had successfully incorporated alternative investments in their clients' retirement portfolios. Thematic analysis was used to analyze the data. Three themes emerged: risk associated with alternative investments, noncorrelated diversified assets, and increased returns and growth. A key recommendation includes adopting financial platforms or using third party alternative investment managers to incorporate alternative investments into clients' retirement investment portfolios. The implications for positive social change include the potential for financial advisors to provide alternative investment strategies for use in their business practice, strengthen relationships with clients, improve the overall performance of their clients' investment portfolios, and reduce the downside risks of their assets. Further implications include the potential to create additional jobs for specialized managers of alternative investments.

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Dedication

This dedication is first to God, whose mercy, grace and love have seen me through some troubling times and allowed me to overcome numerous obstacles to become a better person. I also dedicate this study to my wife, Lillian (Cookie) House, who has, for reasons I still cannot comprehend, managed to endure my many blunders and mishaps for 42 years. She is not only the love of my life but my best friend.

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Section l: Foundation of the Study

In this section, I provide an overview of the business problem and some possible alternative investment strategies financial advisors may employ to increase the yield on their client's retirement assets. Additionally, by adding alternative investments that are noncorrelated to traditional stock and bond investments, financial advisors will offer increased diversity to the client's retirement portfolios. I also present a critical literature review related to the study area that will justify further research into alternative investment strategies. Finally, I address the positive social and business change contributions that will occur by adding alternative investment strategies to existing retirement assets.

Background of the Problem

Financial advisors are discovering their industry is evolving and changing with the economic and technological advancements permeating our culture. The competition for new client leads is intense as break-away advisors (advisors leaving their broker-dealer relationship), and the introduction of robo-advising platforms all compete for new business. Independent financial advisors are adopting new alternative strategies to compete in their markets, such as adding financial technology (FinTech) and robo-advisory. Now, more than ever, independent financial advisors need to articulate their value proposition and discover innovative ways to get their message out to potential new clients.

Employers have undergone a major shift in recent years away from defined pension programs to defined contribution plans. The employee provides the bulk of

defined contributions today with a much smaller matching contribution from the employer. Individuals who previously relied on work-related defined pension programs for financial support in retirement now must survive on insufficiently funded defined contribution plans and Social Security in their old age.

In this study, I explored how independent financial advisors can incorporate alternative investment strategies into their practice to add value to their client's portfolios and differentiate their business practice from traditional firms. Additionally, stakeholders are seeking increased returns on their assets designated for retirement with less correlation to the stock market. Last, with the onset of more breakaway brokers starting their own independent advisory business and the continued tightening of regulatory requirements, new and existing independent financial advisors must find a way to add additional clients, thereby increasing revenues. Adding alternative investments may be the tool financial advisors need to add new clients and increase profitability.

Problem Statement

As of 2013, only 48% of households in the United States had some form of retirement assets set-aside with a median value of $109,000 (U.S. Accountability Office, 2015). Given the negative interest rates on bonds and stock investments, producing a net return of 2-4%, retirees can expect a shortfall in the assets needed for retirement. (Blanchett, Finke, & Pfau, 2017). The general business problem was that advisors of financial advisory firms have clients who are not accumulating enough assets for retirement using traditional investment approaches. The specific business problem was

that some financial advisors lack alternative investment strategies to meet the demands of their clients for increased diversification and growth on assets designated for retirement.

Purpose Statement

The purpose of this multiple qualitative case study was to explore alternative investment strategies financial advisors can use to enhance the growth and diversification of their clients' retirement assets. The targeted population comprised four owners of independent Registered Investment Advisory Firms (RIAs) in Georgia and South Carolina who had implemented alternative investment strategies and enhanced the growth and diversification of their clients' assets. The implications for social change included the potential to advance the portfolio strategies available to financial advisors, which can ultimately improve the retirement outcome and financial well-being of retirees who are now struggling with a shortfall of income to meet their basic financial needs.

Nature of the Study

The method for this study was qualitative. A qualitative study is associated with an interpretive philosophy for researchers to understand the phenomenon studied (Saunders, Lewis, & Thornhill, 2015). Researchers employing qualitative methodology seek to explore rather than explain a phenomenon or outcome (Yin, 2018). Conversely, a quantitative study is usually associated with a deductive approach whereby the researcher uses data to test a theory (Saunders et al., 2015). The quantitative approach did not afford the same capability as a qualitative approach without diminishing the desired scope of my study. A mixed method approach using a quantitative method for one phase and a qualitative method in another was not a logical choice because of the in-depth

analysis and exploration necessary for my study. Therefore, the quantitative and mixed method approaches were not appropriate for my study.

Selecting a multiple qualitative case study approach allowed a deeper exploration of the subject phenomenon and more details than a phenomenological design where the researcher uses only a single interview method and interprets a single collection technique (Saunders et al., 2015). A grounded theory design was not appropriate because I did not seek to discover a theory for the essence of the phenomenon. Using a narrative design method would not have satisfied the need to compare the experiences of many individuals to arrive at a synoptic view. I considered the ethnographic approach because of its ability to study cultures. However, I dismissed the ethnographic approach because it was too early in the process to formulate any behavioral tendencies by exploring the cultural or sociological dimensions of the phenomenon. By using an interview format and analyzing available statistics related to the subject, I combined the statistics and the results of the case studies to add credibility and a richer approach to gather the information necessary for further research and discussion (Saunders et al., 2015). For that reason, using a case study approach was the appropriate choice for addressing my study's purpose of providing an in-depth view of the alternative strategies financial advisors should incorporate into their practice to meet the demands of their clients for increased diversification and growth on assets designated for retirement.

Research Question

The central research question for this study was: What alternative investment strategies do financial advisors use to enhance the growth and diversification of their

clients' retirement assets?

Interview Questions

Interview participants responded to open-ended semistructured questions to identify their experience using alternative investment strategies to enhance their clients' retirement assets. The following open-ended interview questions were applied to this study:

1. What led you to add alternative investment strategies into your clients' retirement portfolio?
2. What types of investment strategies do you currently employ in your clients' retirement portfolio to catalyze growth and diversification?
3. What, if any, strategy changes have you made recently to adapt to the low-interest-rate environment your clients are experiencing in their fixed income retirement portfolios?
4. What alternative investment strategies have provided the best results for your clients?
5. What percentage of the overall client's retirement portfolio do you currently allocate to alternative investments?
6. What types of withdrawal strategies do you currently employ for your clients' retirement income?
7. How do you determine the appropriate percentage of alternative investments for your client's retirement accounts?

Conceptual Framework

The conceptual framework for this study was modern portfolio theory (MPT), as posited by Harry Markowitz's 1952 Nobel Prize Economic essay on *Portfolio Selection*. Markowitz (1952) based his theory on the idea of minimizing investment risks within the investment portfolio by enhancing diversification strategies designed to optimize an investment portfolio given any level of risk. According to the author, it is necessary to include investments that have an inverse relationship to each other, or dissimilar correlation to existing securities, to improve the portfolio gains and minimize the overall risks to the investment assets. As applied to my study, financial advisors are struggling to identify alternative investment strategies necessary to enhance and diversify their clients' retirement assets, thereby improving their ability to meet the future financial needs of their clients during retirement. Also, adding alternative investments into an already mixed investment portfolio, as recommended by MPT, lessens the correlation of assets subject to stock market volatility, thus decreasing the risks associated with traditional investing. The doctrines of MPT theory are still practiced by most financial advisors who adhere to asset allocation and diversification of retirement portfolios. Therefore, extending MPT to incorporate alternative investment strategies into an overall portfolio selection for the growth and diversification of the client's retirement assets becomes a plausible option.

In this case study, I explored a few alternative investment strategies available for retail clients, which may benefit financial advisors by extending MPT to include noncorrelated stock market investments. Also, these alternative investment strategies

may improve the overall performance of the structured portfolios financial advisors recommend to their clients' and offer some stability to the current volatile nature of the stock market. This case study may also be of interest to larger financial planning firms who are searching for conservative cash flow opportunities to replace bond investments, which are currently producing anemic returns.

Operational Definitions

Alpha: This term is used to gauge the performance of investments against a benchmark such as public equity like the Standards and Poor's 500 Stock Market index. The excess return, as compared to the benchmark, represents the investment's alpha—as a percentage (Dimmock, Wang, & Yang, 2018).

Application program interface: This term denotes the *go-between* for two unrelated software programs. Application program interface allows third-party providers (TPP), banks, and Fintech companies to connect securely to communicate and gather data or perform a function (Cortet, Rijks, & Nijland, 2016).

Assets under management: This term signifies the total value or load of financial assets managed by an investment company or financial advisor (Lopez-de-Silanes, Phalippou, & Gottschalg, 2015).

Blockchain technology: This term is a relatively new record-keeping system and technology which has two distinct elements, the *block*, and the *chain*. The block refers to the package of data such as the number of shares, parties to the transaction, date, purchase price, and quantities. The chain is part of a code called *hashes*, which denotes

the data on the block. All data is converted to a standardized format via algorithms and points to the next block (Peterson, 2018).

Crowdfunding (CF): This term is used to represent small amounts of capital from multiple sources, collectively referred to as *the crowd*, to fund a business venture or investment. CF takes advantage of the Internet and software platforms to raise money to finance a project or investment (Langley & Leyshon, 2017).

FinTech: This term represents a bond between finance and information technology and creates a major disruption in technology within the financial technology sector, which threatens the traditional financial services providers (Zavolokina, Dolata, & Schwabe, 2016).

Form ADV: This is the form used by investment advisors to register with the securities exchange commission (SEC) or state securities authorities. It has two parts; Part 1 provides information about the advisor's business and Part 2 consists of the narrative brochures and describes the financial services offered by the advisory firm (U.S. Securities and Exchange Commission, 2018).

Peer-to-peer lending (P2P): This is a term that refers to alternative debt financing outside the traditional lending methods currently used by financial institutions. P2P lending is a money transaction between nonrelated individuals allowing businesses and investors to bypass the middleman and receive funding directly from individuals (Keh-Wen Songtao, Kuan-Chou, & Chen, 2016).

Robo-advisors: This term denotes a sophisticated computerized digital software system that uses algorithms to provide personalized investment advice and monitoring without human intervention (Lightbourne, 2017).

Tax-loss harvesting and rebalancing: This term refers to a method of selling losing securities at a loss to offset short-term gains from other performing assets and, in turn, repurchase a similar asset to replace the old one to maintain optimal diversification (Bouchey, Brunel, & Li, 2016).

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions are the principles the researcher considers being true without providing scientific evidence of its existence (Marshall & Rossman, 2016). The primary assumption of this study was that all participants are familiar with using alternative investments in their financial advisory practice. Another assumption was that the business owner participants had established a profitable practice because they sustained operations for over 5 years and have the necessary skills to implement new strategies. Finally, I assumed that all the participants provided honest answers to the interview questions.

Limitations

Limitations are the perceived weaknesses of the study outside the control of the researcher (Bloomberg & Volpe, 2015; Taguchi, 2018). The first limitation is found in the data collection process and my ability to eliminate bias by not asking leading questions and transferring all results accurately. The intent is that the interviews, and

subsequent analysis, will render practical advice to others in the financial advisory business. Another limitation was my ability to ascertain the experience level of the financial advisors who will participate in the study. I limited the study to financial advisors who had practiced for at least 5 years. Truly identifying the experience level, especially those advisors who have successfully implemented alternative investments in their practice, is questionable.

Delimitations

Delimitations allow the researcher to limit the bounds or scope of the study (Merriam, 2014). A delimitation of this study was the geographic location of the participants, which only included financial advisors who are members of the Financial Planning Association of Georgia and within a 200 mile radius of Augusta, Georgia. I did not include financial advisors whose firms were not using alternative investments in their practice. I only included financial advisors who had established an independent business and, as such, did not include other financial advisory firms. Another limitation was the transferability of the data to infer that it is representative of all financial advisory firms in the southeast. The final delimitation was the time frame to complete my doctoral research.

Significance of the Study

According to Ellis, Munnell, and Eschtruth (2016), the average worker in 2016 nearing retirement has less than $100,000 in total assets in their retirement account. The results of this study may contribute to the economic growth of traditional financial advisory practices that are struggling to add additional clients because of the intense

competition from break-away broker-dealer advisors and FinTech platforms. By augmenting alternative investments into their portfolio selection process for the benefit of their clients, these firms could further differentiate themselves from the competition. Specifically, the findings may support financial advisors by creating a better understanding of alternative assets and how to implement various alternative strategies that may produce increased asset performance and generate healthier retirement income for their clients.

Contributions to Business Practice

Using alternative investment strategies are standard practice for institutional investors. Even public pension plan providers have increased the use of alternative investments into their investment portfolios since the financial crisis (Aubry, Chen, & Munnell, 2017). According to the Center for Retirement Research at Boston College, the Center for State and Local Government Excellence, and the National Association of State Retirement Administrators (2017), the public pension plan assets allocated to alternative investments in 2001 was 3.4% but jumped to 17.7% by 2016. It is only a matter of time before the increase of alternative investments for individual investors will also show a significant boost, especially considering the low-interest-rate environment on fixed-income securities. Specifically, the findings of this study may provide information financial advisors need to implement alternative investments into their practice. Ultimately, these business owners may discover alternative investment strategies that will not only benefit their clients but will also help to expand their practice by adding a new revenue stream to their business.

Implications for Social Change

The purpose of this study was to explore how financial advisors can enhance the growth and diversification of their clients' retirement assets. The findings of this study may support social change by providing information to financial advisors who are seeking higher returns with less risk for their clients. By incorporating alternative investment strategies into their practice, financial advisors may discover the benefit of providing more options for clients, which have the potential to strengthen their relationships. Also, incorporating alternative investments into an already mixed portfolio may help to improve the asset performance of future retirees while reducing the downside risk of a stock-only portfolio. Improving the performance of client assets may lessen the financial burden of retirees by allowing them to draw a comfortable income without the fear and burdensome stress of running out of money later in life or facing the inevitable need to continue working in their later years.

A Review of the Professional and Academic Literature

The purpose of this professional literature review was to summarize, compare, and contrast sources related to the specific business problem that some financial advisors lack alternative investment strategies to meet the demands of their clients for increased diversification and growth on assets designated for retirement. In this literature review, I included articles related to the primary research question: What alternative investment strategies do financial advisors use to enhance the growth and diversification of their clients' retirement assets? I used peer-reviewed articles, government publications, and books on these topics. Of the 112 sources used in this study, 83 were peer-reviewed

articles, 16 were articles that were not peer reviewed, 10 were government publications, and three were other documents. Most sources used were published within 5 years, exceptions noted, of completion of this study (see Table 1). I accessed material through Walden's database library to include ProQuest, Science Direct, Business Source Complete, EBSCOhost, and Sage Publications. I also performed additional searches through Google Scholar and current professional financial planning and advisory publications using keywords such as *alternative investments, alternative investment strategies,* and *alternative portfolio investing*.

Table 1

Sources Used in Literature Review

Source	2014 and earlier	2015	2016	2017	2018	2019	Total
Peer-Reviewed Articles	17	15	20	24	7	-	**83**
Non-Peer-Reviewed Articles	-	5	5	4	-	2	**16**
Books	-	-	-	-	-	-	**0**
Government Publications	4	-	-	2	2	2	**10**
Other	-	-	2	1	-	-	**3**
Totals	**21**	**20**	**27**	**31**	**9**	**4**	**112**

MPT has been criticized by scholars who challenge the fundamental doctrine espoused by Markowitz, specifically the lack of incorporating investor behavior, the efficient market hypothesis, the normal distribution maxim, and using the standard deviation formula. Many other scholars want to extend or advance MPT by adding alternative investments, factor investing, or combining the efficient market hypothesis

and behavioral finance. I provided an overview of relevant studies related to MPT. I also highlighted the current legal challenges of financial advisors and the changing financial service practice. Finally, I explored alternative investment strategies available to financial advisors who develop retirement portfolio investments for their retail clients.

Modern Portfolio Theory (MPT)

A review of the professional and academic literature comprised a conceptual framework developed by Markowitz (1952), who introduced MPT with his 1952 Nobel Prize Economic essay on *Portfolio Selection*. Financial advisors still use the tenets of MPT by diversifying their portfolio selections, thereby limiting the volatility of the investment assets. Markowitz (1952) based his theory on the idea of minimizing investment risks within the investment portfolio by enhancing diversification strategies designed to optimize an investment portfolio given any level of risk. According to Markowitz (1952), it is necessary to include investments that have an inverse relationship to each other, or dissimilar correlation to existing securities, to improve the portfolio gains and minimize the overall risks to the investment assets. Although MPT is not new, it remains the cornerstone practice used by investment advisors to construct efficient investment portfolios for clients.

Many studies attempt to build on the MPT model by using advanced formulas and calculations; however, the most recent modification to MPT is further diversification into alternative investments. For example, Belev and Gold (2016) introduced a method to analyze direct real estate investments, which properly aligned with MPT tenets such as low correlation with other asset classes and stable returns. Furthermore, following MPT

practice, the performance of the investment is compared to the performance of other assets (Belev & Gold, 2016). In another study, Stalebrink (2016) researched some prevalent theories regarding the lack of alternative investments in four national pension funds in Sweden. Although there was an uptick in alternative investment interest worldwide, the allocation of alternatives within large pension funds did not match the perceived interest (Stalebrink, 2016). The author also explored the role of MPT in guiding the decision to invest in an alternative investment. MPT is still one of the principal methods used in portfolio selection and allocating a percentage of the investment portfolio to alternative investments may increase performance to the overall portfolio and reduce the systemic risks typically associated with traditional investments.

Extending Modern Portfolio Theory (Competing/Contrasting Theories)

Several portfolio management theorists offer competing arguments against MPT. Perren, Faseruk, and Cooper (2015) attempted to expose the faults of MPT by highlighting the fallacy of idealized financial behavior and mathematical equations to identify the average investor. Behavioral finance theory refers to observing the behavior tendencies of investors by involving the use of psychology to account for the anomalies found in MPT (Perren et al., 2015). According to the authors, the law of behavioral finance theory stated that markets are not efficient. At any given time, mispricing can occur and limit any arbitrage measures assumed to take place in efficient portfolio theories. Verheyden, De Moor, and Van den Bossche (2015) focused on the value of combining the efficient market hypothesis and behavioral finance theory into a joint hypothesis called *adaptive market hypothesis*. The authors acknowledge the continuing

debate over efficient market hypothesis and behavioral finance theory and how combining the two theories may present the best of both worlds. Efficient market hypothesis theorists believe the markets efficiently incorporate public information and offer no advantages to the average investor (Fama, 1965, 1995). Conversely, behavioral finance theorists suggest investors suffer from psychological anomalies and expose the market to inefficiencies and price fluctuations (Shiller, 2003; Verheyden et al., 2015). Fama (1998) acknowledged behavioral reactions have a short duration effect on the stock market but emphasized in the long-term markets return to their efficiencies.

As with all seminal work, there will be challenges from other authors and practitioners. MPT is no exception. Geambaşu, Sova, Jianu, and Geambaşu (2013) stressed the essential differences between MPT and post-modern portfolio theory (PMPT). The authors differentiate from MPT by incorporating investor behavior as depicted by prospect behavior theory, recognizing that a typical investor does not behave rationally. Also, the authors of PMPT contends that risk-rewards are skewed in MPT because of the assumption that portfolio returns are normally distributed when, in fact, they are not (Geambaşu et al., 2013). Admittedly, financial advisors now accept that the behavior of the investor is another variable that previously was missing when constructing an investment portfolio. Swisher and Kasten (2005) criticize MPT because it provides an ideal theoretical model but fails to accommodate the actual risks of the investor by only calculating the standard deviation. Therefore, the authors contend that MPT is wrong because it produces inefficient portfolios. For that reason, Swisher and Kasten (2005) introduce a new model called *downside risk optimization,* which they

believe is a superior mathematical formula than the modern variance optimization proposed by MPT because downside risk optimization uses downside risk to define risk instead of using a standard deviation. I am not convinced that downside risk optimization is a superior model to MPT. Admittedly, the attempt to measure the additional risks associated with investor behavior is admirable; however, how can you mathematically measure the risks of failing to meet one's goal when this variable is a moving target? At least, researchers using MPT measure the standard deviation, which is a neutral risk factor not involving investor behavior. Nevertheless, the precepts of MPT continue to dominate as the financial industry's foundational theory for constructing diversified investment portfolios.

Interestingly, Blood (2016) and Dimson, Marsh, and Staunton (2017) are not trying to discredit MPT but to enhance it through the identification of specific *factors* that have traditionally shown to improve a stock performance over time (in financial lingo this equates to increasing *alpha*). For example, Blood contended that identifying performing stocks based on certain factors such as size, relative price, quality, and momentum is a superior method to increase portfolio returns. Moreover, other factors, sometimes considered in the stock analysis, are low volatility and dividend yield (Blood, 2016). The author's basic premise is that outperforming stocks have certain traits called *factors* that minimize risk while maximizing returns. Dimson et al. (2017) studied data from different countries and periods and concluded, much like Blood, that size, value, momentum, income, and volatility affect portfolio returns.

Numerous researchers focus on the relative inequalities of traditional public stock investments and alternative investments in the private market. A popular contention is that MPT did not fail the investment market; however, the construction of strongly correlated investments by investment advisors within an investment portfolio, using only traditional stock and bond investments without incorporating alternatives, causes failure (Santacruz, 2014). Hayes, Primbs, and Chiquoine (2015) proposed adjusting the qualities of illiquid private investments to fit in the MPT model. Although there is no explicit label for these altered MPT concepts, many authors either refer to them as extending MPT, PMPT, or MPT 2.0.

Cheng, Lin, and Liu (2017) criticized previous researchers for trying to discredit or correct the biases related to the illiquid nature of alternative investments before applying MPT. Instead, Cheng et al. (2017) studied direct real estate investment alternatives and proposed extending MPT by modifying the model to fit the real estate asset. By applying an alternative *multi-period mean-variance analysis* model, the authors compensate for the unique characteristics of real estate, such as a longer investment horizon, illiquidity risks, and higher than standard transaction costs. Cheng et al. (2017) provided one of the best models I have seen to accommodate private market alternative investments like real estate within MPT, albeit with a slight variance to adjust for anomalies in the alternative investments market. Keller, Butler, and Kipnis (2015) also criticized previous authors who tried to discredit MPT by not accounting for the differences in the investment horizons while using the *mean-variance optimization* as introduced by Harry Markowitz. The authors present another real estate alternative

analysis using momentum based long only mean-variance optimization with shorter lookback periods of only 12 months or less, and common sense constraints such as long only portfolio weights to stabilize the optimization. By calculating the specific return (r) and mean-variance (v) percent of an investment asset, such as long only exchange traded funds, the authors proved that a shorter look back period of 12 months or less could provide an accurate estimate of the asset optimization on the *efficient-frontier* as depicted by MPT. Keller et al. (2015) supported the conceptual framework of MPT with a few slight adjustments to the lookback period.

Researchers have developed many new identifiers claiming to adjust the basic premise of MPT, such as PMPT, extending MPT, or MPT 2.0. Nevertheless, the term PMPT has rapidly gained momentum over the last decade. The problem with PMPT is in identifying a universally accepted theory associated with this new definition. Researchers question whether to identify PMPT as incorporating investor behavior, the use of downside risk optimization, or *factor* investing. These unique identifiers, as well as several others, all claim the term PMPT.

Evidence to Support the Use of Alternative Investments

Alternative investments are not new to the investment community. Several large institutional investors have successfully incorporated alternative investments into their overall investment portfolios for years. The recent increases of alternative assets within these private institutions may signal the growth of alternatives within the overall investment community.

The Yale endowment model. The Yale fund incorporates the mean-variance approach as described in MPT designed by Harry Markowitz. The Yale endowment investment managers changed the mix of investments from nine-tenths in stocks, bonds, and cash to just one-tenth in recent years (Yale Investment Office, 2016). Akintona (2017) emphasized offsetting the correlation to domestic equities further and increasing the overall performance of the assets by investing the Yale endowment model globally. The endowment models have a long term investment horizon, but the use of alternatives far exceeds most other mixed model portfolios (Akintona, 2017). The Yale endowment investment managers use an alternative investment mix for the bulk of their investments to include private equity, real estate, leveraged buyouts, venture capital, absolute returns, foreign equity, domestic equity, fixed income, and cash and equivalent (Yale Investment Office, 2016). The performance of the Yale model, under the current investment manager, has continued to outperform most other traditional investment models. For example, the Yale model earned 11.3% annual return net of fees for 2017 compared to traditional domestic equities at 7.5% and 13.9% for the last 20 years (Chambers & Dimson, 2015; Yale Investment Office, 2016). The Yale model, according to Bermiss, Hallen, Mcdonald, and Pahnke (2016), is an *endorsing beacon* because of the investment manager's insights into future trends. Venture capitalists and individuals in the investment world often watch the predictions and actions of Yale's investment advisors (Bermiss et al., 2016).

Geddes, Goldberg, and Bianchi (2015) described how the Yale endowment model would not look as attractive to retail investors after taxes. According to the authors, the

Yale model will not be a good source to mimic for an investment manager who is adhering to a fiduciary relationship with a client in building a retirement portfolio. However, with a few adjustments, the Yale model investment managers might offer insight into similar investments with more advantageous tax treatments or simply placing high tax investments into a tax-deferred account like a self directed individual retirement account (IRA). For instance, direct real estate ownership offers superior tax advantages over publicly traded real estate investment trusts (REITs). REITs are taxed as ordinary income, and the tax rate depends on the investor's tax bracket. One method to overcome this high tax environment is to place these assets into a tax-deferred account to optimize the performance and capture the high return on the assets. The one major problem with tax-deferred accounts is the tax will eventually become due once the investor draws out the funds. By deferring the taxes, the investor is accepting a partnership with the IRS. Additionally, the IRS punishes investors who fail to draw down their investments by imposing a required minimum distribution penalty at age 70 1/2.

Geczy (2014) observed the basic correlation techniques, diversifying just asset classes without risk diversification, does not offer enough of a correlation to protect investors from the downside risk exposure. Therefore, according to the author, risk diversification into alternative investments become core diversifiers to protect investors from the typical high correlation to existing assets and risks. Geczy (2014) acknowledged that the Yale model, which has been extremely successful over most traditional approaches, may not apply for some investors because of the illiquidity and

long term investment horizon philosophy. However, adding alternatives to an investment portfolio can act as a buffer during a financial crisis (Geczy, 2014).

Roberts (2017), set out to determine if a simple asset allocation model could replicate the endowment models. In that respect, the author is constructing and testing asset allocation models that might perform as well or better than the standard endowment model, which not only has a long term investment horizon but predominately uses alternative investments. Roberts (2017) adjusted the results by a risk formula that supposedly balances the analysis. Of course, adjusting for risk is a subjective opinion. The Yale model already incorporates MPT, which is a method to optimize investment performance considering the risk involved by adjusting for the standard deviation. Constructing a simple asset allocation model in traditional investments to replicate the endowment models sounds plausible. However, to build an effective asset allocation model, according to Roberts (2017), one must incorporate options as the tool for equalizing leverage. Unfortunately, option investing is a complicated active strategy requiring experienced options trading asset managers.

Alternative investments and retirement pensions. Although small financial advisors rarely manage a large business or government pension program, the managers of government and private defined benefit plans are setting the standards for increased use of alternative investment strategies with documented success. The Public Plan Database (2018) noted an increased use of alternatives from 9%-24% between 2005 and 2015. Public pensions, which are typically defined benefit plans, cover benefits for 12.8 million employees and 5.9 million retirees (Mohan & Zhang, 2014). Despite their size, public

pensions are still underfunded, according to Mohan and Zhang (2014). This evidence supports the likelihood of increased use of alternatives by institutional investors to boost investment yields to recover the financial shortfall. Andonov, Bauer, and Cremers (2017) acknowledged that public pension plans lean towards increased investment risks in alternative investments to offset their underfunded accounts. Additionally, Andonov et al. (2017) were surprised to discover that U.S. public pension programs managers are prone to accept more significant risks than their European counterparts because of the flexibility in the evaluation of U.S. assets used in retirement pensions. Bradley, Pantzalis, and Yuan (2016) confirmed that state pension programs managers hold political biases, which may also influence the risks and decisions of pension plan boards towards selecting alternative investments. The additional risks absorbed by pensions administrators may have other variables besides increased profits.

Pension funds administrators develop a central mantra to follow MPT to match future liabilities while optimizing performance and reducing risks (van Loon & Aalbers, 2017). Accordingly, diversification and noncorrelation to traditional assets are paramount to creating a stable income for pension funds (van Loon & Aalbers, 2017). Particularly relevant is the discovery by government pension program administrators to add alternative investments to their portfolios to increase diversification with less volatility than traditional stocks, bonds, and cash equivalent investments. Jackwerth and Slavutskaya (2016) revealed adding hedge funds as an alternative asset to a pension fund improved the performance of the average pension fund significantly more than any other alternative asset. The overarching question is how quickly the adoption of alternative

investment strategies can filter into individual investor retirement plans? Also, will the small individual investor compete with the larger pension program managers who can easily meet the minimum investment requirements some private hedge funds and private equity firm executives demand, such as investor accreditation?

Legal and Regulatory Requirements Affecting Financial Advisors

One factor which may hinder financial advisors from offering alternative investment strategies is coping with government oversight. Institutional investors enjoy an autonomous investment management system; however, retail investors have limitations imposed by government regulations on the types and strategies incorporated into their retirement plans. Naturally, these limitations, closely watched by the various government regulatory agencies, impose restrictions on financial advisors who must comply with their rules or risk fines and revocation of their license. Financial advisors may decide these restrictions are too significant to enter the alternative investment market, especially when advising on a client's retirement assets. Interestingly, in Europe, the current regulation on alternative investment funds and fund managers imposed by the European Union, to member states like the United Kingdom, show that the United Kingdom can still attract investors in the alternative investment space despite the added regulations imposed by the European Union and the ongoing Brexit negotiations (Olivares-Caminal, & Bodellini, 2018).

The Investment Adviser Act of 1940 (IAA) is one of the last statutes enacted as a result of the 1929 stock market crash and succeeding depression in the 1930s (General Information on the Regulation of Investment Advisers, 2011). Congress passed the IAA

to allow the government to monitor individuals who for a fee advise people or organizations on investment matters, offer analysis and interpretation of securities, or provide reports and receive an economic benefit on a regular basis (Investment Adviser Act of 1940). Specific professional individuals and institutions such as lawyers, accountants, engineers, teachers, and banks who provide advice incidental to their business receive an exclusion from the act (Investment Adviser Act of 1940). The IAA of 1940 does not exclude the individuals or organizations from the anti-fraud provisions of the Advisers Act, which prohibits misstatements or misleading statements (General Information on the Regulation of Investment Advisers, 2011). Individuals who advise for a fee are classified as investment advisers, and they must either register with the SEC or their home state, depending on the current amount of assets under management. Also, investment advisors must provide a form called ADV, which is available to the public, to summarize information such as their education, experience, criminal history, and types of investments or practices they engaged in (General Information on the Regulation of Investment Advisers, 2011).

The U.S. SEC is the responsible agency to regulate investment advisors subject to the IAA of 1940 (U.S. Securities and Exchange Commission, 2018). The Financial Industry Regulatory Authority is a not-for-profit organization authorized by the government to oversee the broker-dealer industry (Financial Industry Regulatory Authority, 2018). Investment advisors dually registered as a broker-dealer, and an investment advisor must conform to both the SEC and the financial industry regulatory authority regulations. Additionally, all investment advisors and brokers are subject to

state securities laws where they are currently registered (U.S. Securities and Exchange Commission, 2018). An investment advisor must register with the SEC using *Form ADV*, which includes the advisor and anyone under the supervision of the adviser, excluding clerical employees (U.S. Securities and Exchange Commission, 2018). The SEC uses form ADV to annually collect information about the advisor's business, types of managed assets, and fee structure (U.S. Securities and Exchange Commission, 2018).

With the introduction of non-human advisory platforms called Robo-Advisors, the regulatory agencies have even greater challenges (Lightbourne, 2017). Robo-Advisory is an innovative approach to investment management using computer generated algorithms to manage the investment assets of clients (Ji, 2017). According to Ji (2017), Robo-Advisors can structurally provide reasonable care advisory; however, specific cautionary measures are necessary to ensure *shadow fees*, fees embedded into the algorithms, are disclosed to reduce conflicts of interest. The implications of this technological advancement have yet to be tested. Therefore, the SEC will soon need to rule how to regulate Robo-Advisors and whether Robo-Advisors may take on a fiduciary role.

The *Sarbanes-Oxley Act of 2002* affects investment advisors indirectly and directly. Although the Sarbanes-Oxley Act was designed to protect the public from unscrupulous public accounting practices and restore confidence in company reporting, it also affects securities disclosures, protecting private information, and analyzing the security risks of investing in a stock (Sarbanes-Oxley Act of 2002). Sarbanes-Oxley also caused the amendment of the IAA of 1940 to incorporate the additional disclosures, as

stated in section IV, referring to public disclosures, conflicts of interest, and establishing internal controls.

Following the 2008 financial crisis, many bank managers began an austerity program and reduced significantly, if not completely, the funding of small businesses. It was not until the *Jump-Start Our Business Startups Act* (JOBS) passed on April 5, 2012, that entrepreneurs saw a way to capitalize on Internet technology and build business platforms capable of legally raising capital online. Title III of the bill recognized today as the Crowdfunding Act allowed the legalization of raising securities online (U.S. Securities and Exchange Commission, 2018). The full effect of the new regulations came about in 2016. The JOBS Act is significant in the alternative investment arena because now it is easier to acquire alternatives, both equity and debt ownership, for the average investor.

The Dodd-Frank Wall Street Reform and Consumers Protection Act of 2010 (Dodd-Frank Act) was signed into law by President Barack Obama on July 21, 2010 (Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010). The significant provisions of this law, which affect the investment advisor, are the allowance of the SEC to *harmonize* the standards of conduct between broker-dealers and investment advisors (Di Lorenzo, 2012). Traditionally, it is not a requirement that broker-dealers act as fiduciaries like investment advisors. Broker-dealers only have the duty of fair dealing with clients, referred to as the *best interest* of a client (Finke & Langdon, 2012). This variance is a big differentiator for the investment advisory practitioner. Congressional legislators continue to debate the best standards for protecting consumers. Even so, the

bulk of the Dodd-Frank Act pertains to banking and non-banking activities to address the perceived weaknesses in the financial regulatory system that caused the financial crisis of 2008-2009 (Di Lorenzo, 2012).

The primary argument concerning the Department of Labor (DOL) Fiduciary Rule is the obligation of the advisor. Does the investment advisor owe their loyalty to the client or his company? According to the Employee Retirement Income Security Act of 1974, the process of paying a commission for products is legal when the advisor is defined as a fiduciary (Vicere, 2017). However, on April 6, 2016, the DOL issued its definition of *fiduciary* and *conflict of interest rule,* which now affects anyone who even suggests to a client to invest their retirement money in a product governed by Employee Retirement Income Secutiry Act to include IRAs (Richards, 2017). A fiduciary relationship pertains only to advising on retirement investing and does not apply outside the retirement domain. Therefore, investors can still rely on their broker-dealer relationships and purchase stocks based on recommendations without implying a fiduciary connection. The new DOL rule, if enacted, will impose stricter compliance measures that investment advisors must incorporate into their business operations along with any perceived conflicts of interest (Richards, 2017).

Investment advisors who act in a *dual capacity* as investment advisors and commission sales agents through a broker-dealer relationship will also experience a change to their company's operational procedures. Therefore, brokers who are representatives of a broker-dealer must now also act as fiduciaries, when offering advice on retirement accounts even if it occurs as a onetime event (Villyard, 2016). The new

DOL fiduciary definition has wide reaching effects influencing not only financial advisors but insurance agents, broker-dealers, retirement plan administrators, and custodians of assets for financial advisors and institutions (Villyard, 2016). There will be many commentaries and government interactions both in the private sector and government agencies debating issues involving this new ruling. For the small financial advisory practitioner, who already adheres to a fiduciary relationship, many clarifications are necessary regarding this new rule. With all these new changes, financial advisors may witness a division among their practice. For instance, financial planners may only receive compensation similar to counselors on a fee only basis. Investment managers working on commissions will continue to collect fees from the sale or management of financial products.

The DOL officially announced a delay in initiating the new DOL fiduciary standard from January 1, 2018, to July 1, 2019 (U.S. Department of Labor, 2017). The SEC also entered the debate with their version of proposed legislation for the conduct of investment advisors. Pasztor (2018) surmised the SEC proposal is not much different from the DOL version other than a change of language and perhaps more clarity of terms.

On June 5, 2019, the SEC adopted and published a new ruling called *Regulation Best Interest* (U.S. Securities and Exchange Commission, 2019). This new ruling is supposed to clarify some ambiguity surrounding the relationship status of broker-dealers when working with retail clients. In the past, broker-dealers worked with retail clients under the auspices of fair dealing versus the investment advisor's fiduciary relationship. The best interest standard is the SEC's answer to the Dodd-Frank Act requiring

harmonization of standards used with clients between broker-dealers and investment advisors. Unfortunately, the SEC failed to unify the fiduciary standards and satisfy the Dodd-Frank Act standards of conduct (Waddell, 2019). Under the best interest requirement, broker-dealers are required to serve the retail client's best interest when making recommendations of securities or investment transactions (U.S. Securities and Exchange Commission, 2019). However, this new standard may not harmonize the relationship standards between broker-dealers and financial advisors.

Eight state attorney generals and one private investment advisory firm, XY Planning Network, believe the SEC did not clarify the standards. These organizations are now suing the SEC in two separate lawsuits, claiming the SEC has usurped its authority by attempting to re-draw the dividing lines between broker-dealers and financial advisors, overriding the IAA of 1940 (Kitces, 2019). The main argument in contention is the act of giving financial advice, specifically financial planning recommendations. In the past, only financial advisors could provide financial advice to retail clients. Now, it appears the SEC has opened the door for broker-dealers to continue to offer financial advice without observing the more stringent fiduciary standard if they can claim it was in the client's *best interest*. The attorney generals believe the new rule does not protect investors because it leaves them more susceptible to broker-dealer advisors who place profits ahead of their client's financial well-being (State of California - Department of Justice - Office of the Attorney General, 2019).

Ostensibly, the SEC slanted more towards broker-dealer relationships with their decision than they did financial advisors who adhere to a fiduciary standard for their

clients. Some states are now looking to strengthen the *best interest* standards with their own stricter regulations. Many private organizations such as the Financial Planning Association are setting higher standards of their own by requiring certified financial planners to operate only as a fiduciary.

The Changing Financial Service Practice

The financial service industry is evolving and changing with the economic and technological advancements permeating our culture. Incidentally, according to Vogel, Ludwig, and Börsch-Supan (2017), retirement programs need revising to extend the retirement age and increase the amount of contributions from employees. Investment advisors can no longer rely on older retirement models, considering the shortfall of assets experienced by today's retirees. Additionally, changes are occurring in the financial industry both in the United States and in other countries, especially in FinTech. Investment advisors must now compete with Robo-advisory platforms and capitalize on the online digital technology seen in other markets such as Airbnb in the hospitality sector and Uber in the transportation arena. The advancement of *application program interface* software, which pulls financial data from multiple sources into one dataset, is becoming commonplace within the financial service sector. With application program interface, the wealth management end appears to the client as just another item sourced by the financial advisor even though it managed by other professionals. This new technology will allow all the investment assets of clients to appear in one database for ease of viewing. As a result of this new technology, many financial planners are outsourcing their wealth management to a specialist who manages investment accounts

such as t*urn-key asset management platforms*. Outsourcing wealth management allows advisors to concentrate fully on financial and estate planning and to serve their client's other financial needs.

Robo-Advisory, uses algorithms to develop and maintain individual stock portfolios, specializes in trading in diversified exchange-traded fund investments while capitalizing on tax-loss harvesting (Gold & Kursh, 2017). There is little doubt that Robo-Advisory is disrupting the financial service industry by offering more efficient services, lower fees, and additional transparency (Gold & Kursh, 2017). Fitzpatrick, Reichmeier, and Dowell (2017) discussed the changing demographics facing financial service practices and how the younger generation is more technology-driven. The authors concluded that advisors must either adopt the new technology or compete in other areas of financial services such as estate planning, which is still very specialized. Financial advisors can increase their client base by adopting a Robo-Advisory platform to serve a broader range of clients, including those who were traditionally underserved like *Millennials* (Gold & Kursh, 2017). Alternative investments using FinTech, which fall outside the domain of traditional investment platforms, could serve as a surrogate for advisors who need to add more value to their services.

A final consideration in the changing financial service practice is how to structure the future industry. Kingston and Haijie (2014) debated the issue concerning *fee-only* compensation structures, versus commission sales claiming *fee-only* structures. The authors believe the only pure unbiased and ethical method for compensating financial advisors and fund managers is the fee-only structure. Lassala, Carmona, and Momparler

(2016) advocated further use of independent financial advisors who, according to the authors, offer better advice concerning investing and asset allocation of portfolios based on the client's risk tolerances. The authors warn of the risk associated with the trend towards increased vertical integration of the financial service industry, like Spain, towards *super banks* that monopolize the industry. Banks and broker-dealers are taking notice of the changing financial service industry towards a fee-only practice and altering their business structure to accommodate this new trend. Many broker-dealers are purchasing new technology companies to compete for new clients in the advising only segment.

Exploring Alternative Investment Strategies

My goal was to explore alternative investments open to retail investors. Retail clients are the most prevalent market participants and often ignored by experienced financial advisors because they lack the financial assets to justify the use of their time. The difference between retail investors and accredited investors is significant. The SEC defines accredited investors as having assets of 1 million or more or annual income or $200,000 per year for a single person and $300,000 for married couples for each of the prior two years and reasonably expect the same for the current year (U.S. Securities and Exchange Commission, 2018). Also, with the passing of the Dodd-Frank Act in 2010, accredited investor status rules changed to exclude a person's residence from the asset qualification standards, making it more challenging to achieve accredited status (Dodd-Frank Act, 2010). Non-accredited investors are retail investors, and the financial service practice, wishing to grow their business, must address the concerns of retail clients.

Typically, alternative investment products include any investment which does not involve publicly traded stocks, bonds, and cash equivalents. There are limitless opportunities when it comes to identifying alternative investment products to include: art; jewelry; metals such as gold, copper, silver, real estate; both equity and debt instruments; agricultural products in the form of futures; hedge funds; and private equity. However, there are only a few alternative investment products which command the bulk of the public and private alternative market.

Identifying alternative investment products adaptable for retail investors may prove to be an elusive endeavor. Many authors extended their opinions on how to categorize alternative investments, but there is little consistency in the financial industry about how to identify and classify these investments. A good starting point for advisors is to divide alternative investments into two categories, paper assets or real assets. Next, the financial advisor should classify the asset by how the market purchases them, stock exchange or private market. Lastly, advisors want to look at the correlation the alternative investment has to the stock market, identify the risks such as illiquidity, and the minimum holding period for each type of asset. Alternative investment vehicles are slowly becoming open to both accredited and non-accredited investors. Additional alternative investments will soon be available to retail investors because of their strong desire to increase the yield on investment funds designated for retirement. The most common public market alternatives now available to retail investors are direct lending, publicly traded REITs, and liquid alternatives, which provide a more diversified portfolio than previously available in the marketplace. Although these public market alternative

investments do not offer investors the exceptional yield as their non-liquid counterparts, their liquidly makes them a stable investment choice for financial advisors to incorporate into their client's retirement assets. There are more options for retail investors in the private market; however, this market is suffering from a lack of recognition. CF and P2P lending are already establishing an entirely new market for investors to compete with the dominant public stock market.

Public market alternatives (direct lending). Nesbitt (2017) introduced an alternative asset class called *direct lending,* which is a lower risk opportunity than private equity investing, involving smaller middle market companies with annual earnings between 10 to 100 million. The author admitted, like private equity and real estate, direct lending is somewhat illiquid and will require a minimum holding period of one to three years. One advantage of direct lending is the capability of retail investors to purchase these obligations through broker development companies (Nesbitt, 2017; Zabala & Josse, 2018). Advisors have the potential to increase their client's portfolio cash distributions and overall return using direct lending. Direct lending is a popular investment vehicle for retail investors with smaller investment accounts (Nesbitt, 2017; Zabala & Josse, 2018). Small business owners use direct lending, typically referred to as *shadow banking*, because of their non-banking affiliation, and because it fills a void for allowing their companies greater access to capital (Zabala & Josse, 2018). This newer investment class, according to Bengtsson (2016), still has more room to grow in the alternative investment world.

Traditional deposit bank managers have historically capitalized on the securitization of loans to convert illiquid funds to liquid assets, thus reducing their risks (Ahmad, Hambly, & Ledger, 2018; Loutskina, 2011). Securitization, according to Buchanan (2017), increased credit market volatility and, without proper oversight, may find investors chasing short term yields leading to another financial crisis. Direct lending is a derivative of the securitization of loans, albeit with private lenders now exploiting the overlooked middle market companies' need for working capital. Even so, non-bank intermediaries, *shadow banks*, may assume more risks in their lending practice than traditional banks because of the reduced government oversight. Mortgage backed securities and collateralized debt obligations are still an attractive investment for larger institutional investors. Now, broker development companies allow retail investors with a small amount of capital, as little as $5000, to invest in debt obligations of smaller private companies.

Public market alternatives (public REITs). Public REITs are gaining popularity as an alternative investment class because of their unique features, such as dissimilar correlation to the stock market and higher yields (Stelk, Zhou, & Anderson, 2017). REIT investments have grown significantly over the past 20 plus years. According to the National Association of Real Estate Investment Trusts, REITs increased from 11.7 billion in 1989 to over 907 billion in 2014 (National Association of Real Estate Investment Trusts, 2017). REITs have gained a wide reception in the U.S. and other countries. As of 2013, 29 countries have adopted rules governing REITs and enjoy

similar commonalities that allow secure cross border investments (Giacomini, Ling, & Naranjo, 2015).

There is a difference between private REITs and public REITs. Public REITs are traded on the stock exchange and do not require individuals to classify as accredited investors. Conversely, private REITs are individually traded, and may or may not be registered with the SEC and require investor accreditation. Stelk et al. (2017) explored the risks involved in REITs by looking at the *value-added risk,* which is the industry standard for examining the risks associated with investments. The authors found there is no practical way to measure the risks of public REITs other than comparing them to traditional stocks and bonds. Subsequently, Stelk et al. (2017) conducted a statistical analysis of the relationship between small-cap stocks and public REITs and conclude that adding REITs to an investment portfolio in a down market only adds risk exposure. Pagliari (2017) recommended institutional investors consider a 10-15% allocation to public and private non-listed REITs for low-risk leverage and a 20-25% leverage for moderate risk to improve asset performance over time. As previously discussed, Pagliari's (2017) research may reflect the coming retail market for REITs in an individual retirement portfolio. Nevertheless, public REITs are great candidates for retail investors seeking higher yields and less stock market correlation.

Public market alternatives (liquid alternatives). Despite the increased demand for alternative investments, especially private equity and hedge funds, retail investors cannot meet the initial requirements to invest in these highly diversified investments, given the definition of accredited investor standards. According to the SEC, to invest in

private equity, hedge funds, or venture capital, individuals must meet stringent financial qualifications as accredited investors. However, retail investors can now participate in public hedge funds and private equity investment instruments through liquid alternatives (Liquid Alts.).

Lewis (2016) defined a *liquid alternative mutual fund* (LAMF) as a hedge fund-like derivative investment allowing fund managers to invest in different asset classes to provide higher risks and reward opportunities for investors. Liquid alternative fund managers, according to the author, charge fixed fees, which are lower than typical hedge fund managers who charge high asset management fees and incentive fees. Lewis (2016) credited financial technology as an incentive to allow retail investors the ability to invest in alternatives that have prompted the development of LAMFs. The author emphasized how the returns on LAMF are designed to be uncorrelated to traditional asset classes like stocks and bonds because fund managers structure them to provide increased diversification of risks. Finally, Lewis (2016) displayed how investors using LAMFs along with equities and fixed income investments can deliver a more diversified risk-adjusted return than a traditional stock and bond portfolio. Lewis (2016) epitomized the benefit afforded financial advisors who subscribe to MPT in structuring an investment portfolio with fewer risks, uncorrelated stock market volatility, and improved performance characteristics.

LAMFs are an excellent choice for retail investors because they allow them to invest in a derivative type investment without meeting strict investor qualifications. Black (2015) also explored this relatively new alternative investment and described liquid

alternatives as mutual funds designed to mirror hedge fund strategies with safer investment strategies such as long-term non-traditional and flexible rate bond funds, currency funds, commodity funds, traded broker development companies, traded REITs, and traded *master limited partnerships* (MLPs). These new types of mutual funds, which are easily bought and sold on the public stock exchange, allow financial advisors to take advantage of alternative type strategies within a retail client's investment portfolio. Black (2015) acknowledged the disadvantages of retail investors because they do not have accredited status, and most hedge funds, private equity, and debt instruments are traditionally only open to accredited investors. Before committing to this exciting new investment, Miccolis and Chow (2016) warned of the eroding diversification of liquid alternatives. The authors indicated that these alternative investments have a propensity to have a stronger correlation to traditional stock market investments. Therefore, this newer investment warrants closer scrutiny.

Private market alternatives (real estate private placements). Private placements are unregistered securities that allow advisors to take advantage of the U.S. Securities and Exchange Commission Regulation D offerings and are exempt from registration as securities (U.S. Securities and Exchange Commission, 2018). Private placements differ from private real estate funds in that private real estate funds are often differentiated by risk class such as core, value-added, and opportunistic (Fisher & Hartzell, 2016). Conversely, private placements are usually shorter term real estate investments with limited investors. Company owners may raise capital for new ventures by setting up a private placement whereby the business owner restricts the type of

investors who may invest in their enterprise (Financial Industry Regulatory Authority, 2015).

Private placements, although not regulated by the SEC, are highly restrictive but offer the potential to generate higher returns than many public company counterparts because of early entry participation (Bender, 2015). A *private placement offering* includes a p*rivate placement memorandum* that provides the complete details of the project along with the requirements for investing (Financial Industry Regulatory Authority 2015). With the advent of CF, private placement offerings are now available to the public through funds designed to invest in private placement offerings. These new online platforms may offer retail investors an alternative strategy. Ratcliffe, Dimovski, and French (2014) studied the wealth effect of existing shareholders in Australian real estate investment trusts (A-REITs) private placements. Of interest is how Australian investors use A-REITs. The authors note that A-REITs make up approximately two percent of the superannuation fund investments. Superannuation is a hybrid investment regulated by the Australian government on behalf of the citizens like the U.S. defined benefit program. Interestingly, superannuation is private security investments used by the government to supplement the social security type retirement system in Australia. The benefit of using these funds is the choice of predetermined or fixed income for the investor, depending on the time invested.

Private market alternatives (direct real estate investing). Active real estate investors have historically used *direct real estate investing* (acquiring an ownership interest directly) to build wealth. However, retail investors who invest passively view

direct real estate ownership as an overwhelming, risky, and time-consuming event. Therefore, to a passive investor, direct real estate investing is not a viable investment alternative. Nevertheless, the idea of converting an active investment strategy in real estate to a passive investment intrigues business owners and academics. Products such as *triple net leases*, lease options, turnkey real estate, and fractional ownership are making formidable challenges in transforming direct real estate ownership into passive investments. Lowies, Brenton Whait, Viljoen, and McGreal (2018), revealed that mostly younger adults, although some older adults, primarily females, invest in fractional ownership of residential properties. The authors also found that people who invest in fractional residential property are seeking an alternative to traditional bank savings or stock market investments and not necessarily increased performance. One of the advantages emphasized in the study is the online platform's ability to lower the barrier to entry into investing in residential property. Even so, only investors managing pension funds and endowments have successfully invested passively in direct real estate ownership consistently by using third-party professionals (Andonov, Eichholtz, & Kok, 2015).

Recently, real estate CF, a passive alternative to acquire and manage direct real estate ownership, became available to retail investors with the passage of the JOB Act in 2012. Additionally, real estate investors are taking advantage of self-directed retirement accounts to incorporate real estate CF into their retirement portfolio. Andonov et al. (2015) examined the benefit of direct real estate performance in small and large pension funds. The author’s concluded that more significant pension funds have an advantage

over smaller pension funds in two ways, fewer fees paid and negotiating prowess. Larger pension funds managers have a stronger negotiating position, but they also save on costs by managing direct real estate ownership internally instead of hiring third-party professionals.

The direct ownership of real estate for retail investors displays similar characteristics as pension funds, especially when it comes to hiring third-party professionals to manage real estate investments. The fees incurred by retail real estate investors for hiring external professionals to manage their property can erode their asset's net return. Drew, Walk, and West (2015) acknowledged that direct real estate investing is an excellent strategy to incorporate into a retirement portfolio to improve risk-adjusted returns. The authors also noticed that adding real estate investments improved the performance of a retirement portfolio in *target-date funds*. Additionally, pension funds managers rely on direct real estate investments for diversification to reducing risks, as a hedge against inflation, and to provide stable cash flow through rental income (Drew et al., 2015). The cash flow from real estate investments not only offers investors cash accumulation but also retirement income. The authors conceded that direct real estate ownership by investors acts as a buffer against the Federal Reserve's monetary policy swings when compared to fixed income securities. The authors further recognized that real estate investments, as an alternative asset class, provide several positive benefits worthy of inclusion in retirement portfolios. However, real estate management function remains an obstacle for individual investors who want to stay passively involved in the investment process. Jon (2015) estimated the optimal real estate allocation, given a

certain level of risk tolerance, by categorizing risks into seven different categories based on an analysis of other traditional investments and whether the real estate holding involves debt in a hedged or un-hedged environment, adjusting for currency differences. Overall, the author's finding is very similar to other researchers who suggest investors allocate 5% to 20% of their investment portfolio to real estate within a diversified investment portfolio (Amédée-Manesme, Barthélémy, Bertrand, & Prigent, 2018; Pagliari, 2016).

Moss and Baum (2015) provided an overview of *listed real estate*, real estate sold on public stock exchanges, and non-listed or direct real estate ownership and determined the main benefits of using listed real estate investments versus direct real estate investments is liquidity. Direct real estate investments are long term holdings with limited liquidity attributes. According to Moss and Baum (2015), investors who combined listed and direct real estate properties within a long term investment horizon observed an increase in their yields along with lower risks. Another observation from the authors is how direct real estate investments typically lag listed real estate. Therefore, investors may use listed real estate to indicate the future performance of direct real estate holdings.

By combining direct and listed real estate, either as REITs, real estate funds, or exchange traded real estate funds, retail investors may capture additional yields in their investment portfolios (Moss & Baum, 2015). Baum and Colley (2017) studied the analytics of private real estate holdings of institutional investors. The authors realized that by incorporating real estate into their investment portfolios helped smooth out their

strongly correlated stock and bond investments. In another study, Pagliari (2017) examined real estate returns of two major indices to discover the optimum allocation of real estate assets investors should allow given a specific predictive risk/reward benefit. The two major indices include The National Council of Real Estate Investment Fiduciaries, a nonprofit organization dedicated to serving private pension fund managers and sponsors, and The National Association of Real Estate Investment Trusts, an association dedicated to serving the REITs sponsors. The National Association of Real Estate Investment Trusts organizational leaders specifically invest in publicly traded real estate investments, both equity and debt instruments. Most notably, the author asserted that empirical evidence suggests a 10-15 percent allocation of real estate in a mixed asset portfolio for most investors. Also, for investors seeking a higher return, the author proposed a 40-50% levered portfolio is the optimum allocation of debt to consider.

Ping Cheng, Zhenguo Lin, and Yingchun Liu (2017) dismissed the attitude among real estate researchers that real estate is too *messy* and warrants scrubbing before applying MPT. Ping Cheng et al. (2017) suggested adapting the model to accommodate the data instead of manipulating the data to fit the model. I agree with the authors on not using any form of *desmoothing process* to adjust for volatility compared to traditional investments. I also believe many scholars often ignore the tax consequences of the investments they use in their comparison. For instance, the National Council of Real Estate Investment Fiduciaries is managed by professional investment managers who disregard the tax treatment of the investments because they hold the investments in a retirement account. Public and private REIT administrators also ignore the tax

consequences because they do not pay taxes on the profits. It is the shareholders who must pay tax on their earnings from the REIT. REITs do not pay company taxes, provided they pass along at least 90% of the profit to investors. Individual investors must bear the burden of taxes when they receive dividends. Investors must pay ordinary income tax or capital gains tax on their shareholder profits, depending on the holding period. As a result, individual investors might fare better to hold REITs in a self directed retirement account to defer taxes until withdrawal.

Private market alternatives (life settlements). Another alternative investment, which has garnered considerable attention lately, is a *viatical* settlement and *life settlements*. Viatical agreements involve investors purchasing life insurance from terminally ill policyholders. Life settlements are policies purchased from older policyholders which no longer need the additional coverage. These investments typically outperform stocks or bonds. When a company investment manager offers to buy a life insurance policy from the owner above the cash surrender value, but below the death benefit, they are creating a life settlement contract. Life settlements are excellent noncorrelated investment instruments to include in retirement assets. However, life settlements are long term investments because of their uncertain payouts, and they offer no immediate income to investors.

Braun, Affolter, and Schmeiser (2016) proposed a valuation approach to life settlements that considers the historical analysis of past life settlement policies of 11 different life settlement management companies. Based on historical evidence, the authors discovered two main themes permeating the life settlement valuation process.

The first theme the authors mention is that the previous valuation methods used by actuaries inaccurately priced the market value of life settlements by not correctly considering longevity and using inappropriate discount rates. The second theme the authors reference is that the accounting methods used by life settlement organizers, did not use traditional accounting methods. Therefore, according to the authors, the fee structure for marketing and selling these investments was not transparent to the investor, resulting in higher than average payouts to fund managers. Therefore, poor accounting methods in the past contributed to fraudulent schemes (Braun et al., 2016).

Financial advisors may discover life settlements to be an excellent mid or long-term product to recommend for the alternative investment portion of a client's retirement portfolio. However, based on the discoveries above, advisors must work with reputable companies and only consider life settlement funds, which have multiple policies within its core product, thereby offering the diversification necessary to lower the inherent risks involved. Giaccotto, Golec, and Schmutz (2017) also evaluated historical returns of life settlements and viaticals from 1993 to 2009 and discovered these investments do not correlate with traditional stocks and bonds. However, the authors revealed that viaticals and life settlements are more volatile due to the inherent management analysis of their value. One of the significant findings of the authors, other than the noncorrelation to traditional investments, is that viaticals and life settlements outperformed traditional investments during this period. Giaccotto et al. (2017) observed that traditional stocks, using the Standard and Poor's 500 stock index as an example, slightly outperformed viaticals and life settlements, but only if omitting the period during the latest financial

crisis from the analysis. This comparison reinforces the noncorrelation of viaticals and life settlements to traditional investment assets. The author's research confirmed the benefits related to investing a portion of an individual's retirement assets, at least the alternative investment class, into life settlement funds. It is interesting to note both previous authors criticized the accounting techniques used by life settlement fund managers. Perhaps this is an area of further research.

Latsios (2015) explained options policyholders of life insurance might have other than surrendering their policy or allowing it to lapse when the premiums become too costly to keep it in force. One option discussed by the author is to initiate a rollover, 1035 exchange, to replace the outdated policy with an annuity or long term care policy. This option is acceptable, provided the policy owner understands that only the cash value of the policy is available for the rollover. A better choice might be to sell the policy to a third party reaping the benefit of additional cash to use during retirement. However, before selling the plan, the owner must familiarize himself with various tax implications brought about through the sale. Latsios (2015) viewed life settlements from the perspective of the insured instead of the investor to provide more in-depth knowledge of how these policies become investment vehicles. Since purchasing life settlements sounds a bit morbid, a better understanding of the reasons a policy owner might benefit from selling their insurance policy to a third party might lighten the conscience of investors.

Private market alternatives (crowdfunding). Another alternative investment gaining popularity among investors is CF to include P2P lending. This new platform is growing tremendously and is available for both accredited and nonaccredited investors.

CF is a method entrepreneur use to raise funds or capital for various projects, like start-up businesses or real estate investments. Entrepreneurs adopt a CF platform because it uses the Internet and software platforms to appeal to a broad audience, the crowd, for project funding (Langley & Leyshon, 2017). Instead of relying on traditional bank funding or convincing business angels or venture capital funds on the merit of the new enterprise, the entrepreneurs present their ideas to the global public (Lehner, Grabmann, & Ennsgraber, 2015).

There are three CF options, reward-based CF, debt-based CF (referred to as P2P lending), and equity based CF (Zheng, Xu, Wang, & Chen, 2017). Entrepreneurs use reward based CF to represent a philanthropically based project or entry capital for a new business venture (André, Bureau, Gautier, & Rubel, 2017). In either case, according to the authors, reward based CF does not necessarily involve repayment of capital; however, most often, tokens of appreciation are prearranged to the donor, such as tickets to a sporting event or advanced copies of the new video game they initially financed. On the other hand, equity based CF typically involves surrendering a percentage of ownership in the new company (André et al., 2017).

Langley and Leyshon (2017) challenged the ecologies and democratization of the CF platform. They explored whether society benefits from CF and if there are restrictions associated with the CF technologies. According to the authors, reward based CF is prevalent in the business and humanitarian sectors and therefore garners more attention in the academic community. Conversely, equity based CF is more widely dispersed across various economic sectors and is more ubiquitous than reward based CF

(Langley & Leyshon, 2017). The authors warned about the danger of too much democratization of CF, whereby money is chasing a few excellent investment opportunities, which could lead to a global financial crisis. I think the authors are stretching the negative viewpoint considering this technology, along with market availability, is too new to form such opinions. Lehner et al. (2015) insisted that CF is more than a purely financial phenomenon; it has the potential to impact sociological aspects such as power and emancipation. According to the authors, CF will no doubt affect business ventures even if it is to test the waters for a much larger investment decision down the road. Crowdfunder's, driven by visions and innovative promises, should realize the risks involved and the likelihood of lower than expected returns or the total loss of capital if the entrepreneur fails to deliver.

Cohen (2017) also described CF and the different CF platforms. Specifically, the author explored how small business owners use CF to fill the gap where traditional and nontraditional financing has failed. The author noted a fascinating phenomenon regarding the sociological aspects of CF. For instance, the new business owner is not relying just on traditional qualifications for funding. The ousting of these traditional litmus tests put the entrepreneur in a position of power (Cohen, 2017). Fleming and Sorenson (2016) provided a detailed history and definition of CF and how this method of entrepreneur financing might significantly change the capital funding requirements of new business ventures.

The early adoption of FinTech by entrepreneurs interested in using a CF platform fueled the enthusiastic wave of this current phenomenon, according to the authors. Also,

the authors acknowledge the passage of the JOB Act in 2012 lessened the financial burden of business owners by reducing the security regulations such as the requirements for initial public offerings and an exception for CF, which allows general solicitations. On the investor side of CF, Fleming and Sorenson (2016) believed that a broader range of investors previously omitted from this type of investment in the past had entered the market. The authors also predicted an increase in securities fraud, especially on reward-based platforms. Murphy's (2017) main objection to the JOBS Act is the one million dollar cap on the amount of capital allowed by the *Crowdfunding Act*. According to the author, many start-up business owners need to raise a tremendous amount of capital; therefore, the one million dollar limitation should be revised upward to five million. The author gives additional information about the limitations of the JOBS Act. For instance, the JOBS Act, to protect consumer investors from fraud, places a limitation on the amount investors are allowed annually. Currently, investors are only allowed to purchase securities equal to 5% or $2000 if they earn $100,000 annually and 10% or up to $100,000 if their annual earnings exceed $100,000 (Murphy, 2017). The author did not mention the additional restrictions state security regulators impose on individuals within their jurisdiction. Many states have reduced limits on the amount of investment a person can contribute, which is considerably less than the federal guidelines. For instance, in my home state of Georgia, a nonaccredited investor may invest up to $10,000 in any year. Also, Georgia raised the limits for entrepreneurs. Entrepreneurs can now raise five million dollars for their sale of exempt securities, from the one million dollar limit, which

is identical to the federal guidelines (Rules and Regulations of the State of Georgia, Georgia Secretary of State, 2017).

Rogers (2015) recognized that the new *Crowdfunding Act* gives potential new business owners the ability to obtain funding for their enterprise. However, according to the author, there are some negative attributes about relying on this type of financing. The JOBS Act allows start-ups to take advantage of the new regulation to increase their exposure to retail investors as well as accredited investors. However, the author points out the additional restrictions on verification of investors may limit the use of the new law because of the extra compliance verification involved. The author also points out the opposition against the JOBS Act is substantial, considering it runs against the existing laws to counter fraud and protect the consumer. The author applauds the attempt to loosen the requirements for small business owners to raise capital. According to the author, the added burdens the JOBS Act entails robs the overall attractiveness of the investment.

Younkin and Kashkooli (2016) discussed the increase in the number of new entrepreneurs and their ability to obtain funding due to a softening of the barriers to entry along with the number of people who can actively participate in offering financial support. Additionally, the authors explained how CF offers investors and business owners a better platform for matching people together and facilitating the exchange between them. Schweizer and Zhou (2016) examined several real estate CF campaigns by entrepreneurs. The authors determined that riskier investments such as commercial real estate and new development projects had superior returns over less risky cash flow

investments. Consequently, location matters when considering real estate investing, especially when it comes to the overall performance of the asset. Finally, the authors found more substantial investments with fewer participants, and less frequent payouts performed better than smaller, more consistent payout schedules. Interestingly, the authors' findings did not reflect a difference in investors using a CF platform or investing directly in a traditional real estate asset using bank lending.

At first glance, a professional real estate investor may dismiss this article as a collection of information already known. However, the primary significance is that CF, a new phenomenon in transferring assets, has the same characteristics and performance of traditional real estate lending. Baucus and Mitteness (2016) stressed that there might be more fraud and Ponzi schemes because of the new CF regulations. They caution that many of the verification and authorization of investor qualifications relies only on *self-regulation*. Originators must register the CF portals with the SEC and operate to reduce what the authors describe as *crowdfrauding*. One recommendation of the authors is for originators of the CF portals to hire third party certification companies to verify the new start-up businesses and the credentials of the investors. Many developers of CF portals conduct their own due diligence efforts on the limits an individual investor can invest.

Private market alternatives (peer-to-peer lending). P2P is a form of CF designed by third-party facilitators, which has expanded exponentially by solving the need of matching investors, funders, and borrowers and providing a convenient trading platform for these individuals to conduct business (Hernando, 2016; Keh-Wen Songtao et al., 2016). P2P lending is a private lending platform designed by entrepreneurs to

facilitate transactions between investors and borrowers. This type of debt financing may become a replacement vehicle for traditional bonds or bond funds, especially considering the low interest rate environment existing today (Keh-Wen Songtao et al., 2016).

The lack of savings products for smaller investors makes P2P lending an attractive investment vehicle. P2P lending allows entrepreneurs to capitalize on the next innovation of technology that is transforming the private lending practice into a viable alternative investment model for retail and accredited investors (Lehner et al., 2015). Many new P2P lending sites are appearing on the Internet. Several P2P lending sites also appeal to retail investors by allowing them to invest small amounts of money in hopes of increased yields not found with typical bank products. However, the bulk of online peer lending sites only allow accredited investors to invest on their platform. Keh-Wen Songtao et al. (2016) expressed concern related to the practice of lending without requiring collateral. The authors found that many of the borrowers would not qualify for traditional bank financing. Naturally, this precarious lending practice allows the third party intermediaries to garner higher interest rates for their investors, albeit with much higher risks.

Some peer lending sites only allow accredited investors to invest on their platform. The new breed of entrepreneurs building these quality sites facilitates lending money backed by real estate or business machinery as collateral and use traditional credit standards. Keh-Wen Songtao et al. (2016) central theme is that P2P entrepreneurs do not design their platform to require capital; therefore, the risks involved with this lending are financially unstable. However, there is a clear distinction between small individual

capital P2P borrower sites and larger business based capital P2P loans backed by collateral such as real estate. In either case, these debt instruments are possible substitutes for traditional bond investments. As of this writing, a one year government Treasury note yields .96% compared to a 12 month first lien note at 7.5%. The first lien note yields a higher return for the individual investor. For companies like *LendingClub,* that went public in 2014, there are now two methods to invest,
buying individual notes on the Internet or purchasing outstanding stock. Buying individual notes allows an investor to diversify their portfolio away from the stock market.

Marketplace lending, another term for, P2P, is a relatively new investment class allowing entrepreneurs to dominate the CF platforms and generated 11.08 billion dollars in 2014 (Belleflamme, Omrani, & Peitz, 2015). Entrepreneurs moving into this investment class produced a record number of P2P lending platforms, Internet-based, in the last couple of years. The importance of P2P lending platforms to investors is the possibility to increase portfolio performance by using these high yielding investments to replace traditional bond investing. Financial advisors should add P2P loans in their client's portfolios to augment the assets needed for retirement. However, advisors must consider the risks involved and the percentage of alternatives warranted in the overall portfolio construction. Financial advisors should also contemplate whether hiring a specialist to manage alternative investments because of their knowledge of this investment.

Guo, Zhou, Luo, Liu, and Xiong (2016) proposed a more accurate credit risk model than what the typical P2P lending sites use. Instead of using traditional lending techniques to rate the characteristics of the loan, such as borrower's credit and loan history, the authors suggested a credit model based on past loans with similar attributes and performance outcomes to predict the performance of the new investment. This credit model, called *instance based approach*, is a derivative of the historical probability of loan default by using a logistic regression of the borrower's credit attributes and the historical return of similar loans (Guo et al., 2016). This model appears to be a sound approach because the author is not only basing the credit risk on the borrower's attributes but is also incorporating the similarities of the loan based on past loans. Then again, Marot, Fernandez, Carrick, and Hsi (2017) suggested P2P lending platforms managed by third party entrepreneurs and investment bankers validates it is an asset class and displays the attributes necessary to incorporate into MPT concepts. Still, financial advisors are hesitant to incorporate P2P lending integration into MPT analysis. Nonetheless, the authors' initial findings suggest financial advisors should seriously consider including P2P lending platforms into their client's investment portfolios to increase alpha.

Alternatively, Zeng et al. (2017) proposed a decision matrix for P2P lending platforms. By using historical evidence, the author's objective is to filter out unreliable borrowers, thus improving the investment performance of investors. However, the probability of new borrowers to generate positive results by using historical data is a subjective assumption fraught with numerous possible error points. First, P2P lending platforms are too new to reflect any historically significant results accurately. Also, the

number of P2P investing platforms are growing in record numbers daily; therefore, it is challenging to rate these platforms accurately. Besides, there are no current rating agencies, like *Moody's, Standard and Poor's*, or *Fitch* to conduct reviews on P2P lending platforms.

The Future of Alternative Investments

Driving the future of alternative investments are two main factors, technology, and the desire for investors to increase their earnings on investments. Technology is changing every facet of our lives. Financial advisors must embrace these new changes, especially when considering the bulk of money transferring hands to the millennial generation who are highly technologically proficient. Alternately, many investors are no longer satisfied with typical investment strategies and demand more investment choices that produce better returns on their money.

Business model innovation is not a new concept. However, when digital technology affects how we do business as a culture, our whole economic system demands changes to incorporate digital technology into our business structure. Digital technology is discernible as a platform using cloud-based software to analyze data, rendering valuable customer benefits. Amazon and eBay are perfect examples of the early adoption of digital technology as an online platform serving both vendors and customers. Today, many business owners use both eBay and Amazon as a virtual store. Undoubtedly, many traditional financial advisors who have yet to add a digital platform are forfeiting customers who opt for the convenience of online financial advice, especially the millennial generation (Jackson, Saffell, & Fitzpatrick, 2016). Digital technology is

redefining the way financial advisors conduct business. Therefore, traditional financial advisors must either adopt a digital platform or specialize in more advanced niches such as *estate* or *life planning*.

Gatautis (2017), building on the introduction of the platform business model, emphasized how business leaders from all industries must adapt their current business models to fall in-line with the digitized revolution to compete in the marketplace. Innovative platform business models designed by technical entrepreneurs cooperate by using a two sided system connecting users and producers to create an interactive ecosystem (Gatautis, 2017). Industry leaders must re-tool the old business model concept to conform to the new digitized industry technology. Technology is not just a method to provide communication. Digital technology is a new phenomenon revolutionizing the creation of business value through the orchestration of activities designed to enhance customer experiences (Gatautis, 2017). Kenney and Zysman (2016) described the rise of the platform economy to digitize business processes and ultimately change the way individuals work, socialize, and create business value. Platform models designed by technical developers are disrupting the employment segment by requiring new methods and techniques to build and maintain platform processes (Kenney & Zysman, 2016). Professional developers build platforms to combine software, hardware, operation, and networks that work in unison to create value (Kenney & Zysman, 2016). The authors explained how digital platforms designers used algorithmic processes and cloud based technology to bring together an economic benefit. For instance, Airbnb uses an online platform model to locate and book empty houses and apartments to bolster the

rental market. Also, CF platforms bring together both investors and consumers to trade business services. Financial advisors will need to redefine their value based on the digital platforms of the future. Zott and Amit (2017) discussed the economic business systems changes required to take advantage of the new models which operate in a digital world. The new customer focuses on digital apps, a more modern service, new platforms, and new devices (Zott & Amit, 2017). Accordingly, many traditional companies' leaders that work in banks, travel agencies, financial planning firms, real estate, and insurance agencies are struggling for survivability in the new digital era. Robo-Advisory platforms, using data capturing algorithms, can structure investment which not just mirror investment manager's stock selections but outperform them. Also, Zillow researchers are building a real estate platform that may soon render the exclusive realtor multiple listing services irrelevant. Digital business model innovation is a complete overhaul of the traditional business models. A re-engineering of the old business models, based on the design elements of content, structure, and governance, must take place to migrate to the new digital technology systems.

A more in-depth consideration of CF, including P2P Lending, reveals how these new instruments may offer investors acceptable replacements for traditional equity and debt investments. For instance, offering shares in a new venture using a CF online platform is like purchasing stock on the stock market or chasing the next significant initial public offering. P2P lending may become a viable replacement for bond financing. No doubt, CF has a few advantages over traditional investments, such as enabling a broader market to participate and better matching capabilities; however, investors cannot

overlook the main disadvantage, lack of liquidity. Currently, there is no secondary investment marketplace to buy and sell CF offerings. The average retail investor may one day be able to use the same investment strategies as large retirement fund managers by participating in CF.

Financial advisors and investment managers should consider *absolute returns* in all market conditions and not just traditional asset classes when building an investment portfolio for a client. Investment advisors calculate absolute returns as the gain on the investment itself without comparing the investment to another investment or index. Investment management strategies necessitate the need to look outside the traditional stock and bond portfolios of the past and include assets that are viable replacement vehicles like alternative investments such as CF and P2P. The DNA of an investment portfolio should not significantly suffer after a stock market correction because of the confinement of products to a single mindset of correlated investments in one area of investing.

Summary

Theorists who use MPT have enjoyed sovereignty because MPT works over long investment horizons (Crook & Baredes, 2015). The authors acknowledge that investors glean valuable insights from adhering to the tenets of MPT. First, is the recognition of the allocation of all assets within a portfolio and making decisions within this context. Second, is to reduce risks by diversifying holdings. Financial advisors using alternative investment strategies will add additional financial portfolio diversification techniques within their client's investment portfolio. Diversification techniques not only broaden

asset allocation but mitigate risks by limiting the exposure of these riskier investments by reversing or countering the strategy or protecting the investments with insurance. Ang, Papanikolaou, and Westerfield (2014) suggested illiquidity leads to a further reduction in liquidity and illiquidity assets. Researchers are too concerned with identifying methods and techniques to categorize alternative investments into a defined box, subjugating it to an object of manipulation. As Ping Cheng et al. (2017) aptly stated, "carving the feet to fit the shoes" (p. 515).

The most common method advisors use to design a retirement portfolio is to consider the withdrawal strategies needed for the client to maintain the presumed standard of living during their retirement years. Therefore, when financial advisors consider alternative investment strategies, they must incorporate these alternative investments within the withdrawal strategy most beneficial to the client. The first consideration is determining the tax consequence of the asset holdings. Cook, Meyer, and Reichenstein (2015) opposed the conventional thinking of withdrawing from taxable accounts first, then tax-exempt accounts such as 401(k)'s, and finally from tax-exempt accounts like Roth IRA's. According to Cook et al. (2015), tax-exempt accounts are like limited partnerships where the government becomes a limited partner and owns an interest. Therefore, the authors suggested the optimal tax strategy should consider the marginal tax situations in one's lifetime, such as high medical costs, which might offset taxable conditions. A final consideration involves adding social security benefits into the equation before determining the optimal withdrawal strategy. Geisler and Hulse (2018) suggested following a strict withdrawal regimen, as recommended by Cook et al. (2015),

but with considerations of not reducing social security benefits or affecting the required minimum distribution of retirement assets.

Typically, financial advisors using a traditional retirement strategy, with a stock and bond portfolio, assume a minimum of a 4% drawdown of the investment portfolio per year. Regrettably, advisors are not considering the risks their clients absorb because this drawdown method does not always allow retirees to maintain their desired standard of living or, worse, they could run out of money during their retirement years. The psychological fear of running out of money during retirement may induce many retirees to consider the decumulation of assets a risky proposition and treat any drawdown of funds as a loss (Browning, Guo, Cheng, & Finke, 2016). As noted by Blanchett (2014), retirement consumption over the lifespan of retirement years decreases only slightly with more substantial consumption periods early and late, accounting for higher medical costs. A more sensible withdrawal strategy would be to determine, based on the retiree's standard of living needs, the optimal retirement percentage. Delorme (2015) agreed with adjusting the retirement withdrawal amounts to equal retirement needs but also suggested increasing equity investments as a person gets older instead of the traditional drawdown of equities.

There appears to be a growing need, not only in mature markets but also in emerging markets, to supplement investor's retirement with alternative investments, which offer a higher chance of increased asset returns. Using alternative investments as an additional asset class for the long established stock and bond only investments may alleviate some traditional investment volatility typically found in the stock market.

Additionally, many alternatives such as real estate, private equity, and hedge funds will outperform common stock investments, albeit with less liquidity. Furthermore, a few alternatives, like hybrid insurance products, may one day replace the ever shrinking pension plan once used for retirement.

Financial advisors using alternative investments can offer many rewards and opportunities to diversify an investment portfolio; however, incorporating alternative investments comes with a few inherent risks. Some alternatives may not be acceptable investments for many people who are older and cannot afford to take risks with their retirement assets because they do not have the luxury of time to recover from a possible loss. Therefore, assigning a score or grade to alternative investments based on their risk may one day become commonplace. Advisors may use alternative assets to add superior performance to investment portfolios. However, it is essential advisors consider the added risk exposure clients may inherit by incorporating alternatives. Platanakis, Sakkas, and Sutcliffe (2019) warned that too much diversification may be harmful to investment portfolios. Platanakis et al. (2019) attributed this detrimental diversification to estimation errors and the types of diversification. Perhaps investors should consider just a few alternatives in the portfolio instead of a cornucopia of dissimilar types.

Financial advisors may one day use an alternative investment marketplace, like the stock exchanges, to buy and sell all forms of alternative investment products. London's alternative investment market is a prime example of a second-tier marketplace for alternative investments (Vismara, 2016). For example, the UK is the only country that has a pure alternative CF platform from which retail investors freely trade shares of

companies (Vismara, 2016). For now, financial advisors must contend with smaller niche markets specializing in various forms of alternative investments.

Transition

In Section 1, I summarized the study, including the background of the problem, problem statement, and the purpose of the study to explore alternative investment strategies financial advisors can use to enhance the growth and diversification of their clients' retirement assets. Additionally, in Section 1, I identified the research method and design as a multiple qualitative case study. I introduced the research questions, the definition of terms, along with a detailed literature review and the assumptions, limitations, and delimitations of the study. In Section 2, I provide a more detailed description of the research method and design, the sampling methods, the data collection techniques, and ways to assure the reliability and validity of the study.

Section 2: The Project

Purpose Statement

The purpose of this multiple qualitative case study was to explore alternative investment strategies financial advisors can use to enhance the growth and diversification of their clients' retirement assets. The targeted population comprised four owners of independent RIAs in Georgia and South Carolina who have implemented alternative investment strategies and enhanced the growth and diversification of their clients' assets. The implications for social change include the potential to advance the portfolio strategies available to financial advisors, which can ultimately improve the retirement outcome and economic well-being of retirees who are now struggling with a shortfall of income to meet their basic financial needs.

Role of the Researcher

The principal objective of a researcher performing multiple case study is to design the study, collect and analyze the data, and accurately report the findings (Grossoehme, 2014). The role of the researcher is to present the different perspectives emerging from the study (Collins & Cooper, 2014). My primary focus in this study was to explore the alternative investment strategies financial advisors were using to enhance and grow their client's retirement portfolio.

As a financial advisor, I became aware of the restrictive nature of the investments open to retail investors. Not only are investments limited, but the broker-dealer with which I was affiliated restricted the use of most alternative investments. I began researching alternative investments 3 years ago, hoping to discover additional investment

markets available to retail investors. However, I discovered the typical investment philosophy, with a limited selection of investment choices for retail investors, is deeply ingrained in the investment thinking of most financial advisors. I noticed that very few financial advisors were using alternative investment strategies to maximize the investment return on a client's assets, especially those investments designated for retirement purposes.

Experience in the area of study helps the researcher gain a better understanding of the participant's sensitivities (Berger, 2015; Bryman, 2015). The motivation for this study revolves around my personal experience as a financial advisor and investment analyst. I noticed my industry is deeply rooted in common investment strategies using stocks, bonds, and mutual funds. Most financial advisors adhere to diversification using the precept of MPT. However, when advisors only rely on the stock market for all investments, true diversity is unattainable because of the strong correlation of the investments in one market. Having personal experience in this field, according to Gittelman et al. (2015), could have been a detriment to my study if I allowed my personal preferences to interfere with my research and analysis. Nevertheless, I attempted to remove any own feelings or preconceived perceptions of the financial service industry and remain unbiased during the interview process. The quality of the data depends on the researcher's ability to reduce bias and accurately interpret the findings (Cronin, 2014; Yin, 2018).

Interview protocols are necessary for qualitative researchers to maintain consistency, obtain validity, and achieve reliability within the research data (Foley &

O'Connor, 2013). Using open-ended interview questions to harvest additional information sharing improved my research consistency. I used the interview protocol, listed in Appendix A, throughout my interview process, to maintain reliability and validity. I adhered to the Belmont Report (1979) standards for ethical conduct when interviewing participants to ensure I offered fair treatment and respect to all participants (Brakewood & Poldrack, 2013). Moreover, I realized essential themes during my interview process, which will lead to additional follow up research.

I needed to remain impartial throughout my studies. Gittelman et al. (2015) explained that researchers are obliged to act as an individual observer to avoid negating the credibility and reliability of the study. To mitigate personal bias and prevent data gathering from my perspective as an investment advisor, I was resolute and conscientious regarding data collection and interpretation. By viewing data through the lens of the participant instead of my lens, I hopefully lessened bias in my study. Additionally, I sought to reduce bias and errors by instituting bracketing and member checking. Bracketing is setting aside any personal judgments, prejudices, and values during the interview process (Tufford & Newman, 2012). Member checking adds clarity to the responses of specific questions and reduces personal bias (Fusch & Ness, 2015; Harvey, 2015).

Participants

The targeted population for this multiple case study was experienced financial advisors who live and work in Georgia and South Carolina. Establishing a working relationship with the participants, especially considering my similar background and

experiences, helped build trust while gaining their confidence. The participants felt comfortable speaking with me about the industry and the future changes needed.

I obtained the Institutional Review Board (IRB) approval to conduct four individual case study interviews with four different financial advisors from independent firms while preserving the ethical and confidentiality of the participants. I recruited participants through personal contact via email and phone calls. I explained the basis of my study and the time frame commitment on their part using a scripted description of the study. The participants met the following eligibility requirements: (a) employing alternative investment strategies, (b) have at least 5 years experience working full time as a financial advisor, (c) be a member of the financial planning association and attained the certified financial planner designation or similar designations and (d) own or work for an independent registered investment advisory firm. I assured all participants that the information attained would remain confidential and their identity would remain anonymous. I achieved data saturation with four interviews. I was prepared to add supplementary participants if additional interviews were necessary to reach saturation.

It is only appropriate to select participants for the study voluntarily (Yin, 2018). After receiving Walden University's IRB approval, I confirmed participation by a personal visit and then follow-up with a letter to confirm attendance and consent. I also provided each selected participant with a copy of the interview questions (see Appendix B). Additionally, I reaffirmed the permission of each interviewee by delivering a copy of the consent form to each member before conducting the interviews. Upon completion of the interviews, I shared a copy of the transcribed interview summaries to confirm and

validate the report. Finally, I shared a copy of the research project with each participant or organization that agreed to allow these interviews.

Research Method and Design

Research Method

Of the three research methods, quantitative, qualitative, and mixed methods, I used the qualitative approach to explore in-depth the use of alternative investments by financial advisors. According to Barnham (2015); Johnson (2014); MacGregor and Wathen (2014), a qualitative researcher is expected to develop a better understanding of an individual's attitudes, behavior, and motivations and subjectively gain insightful information. I achieved my objective by interviewing independent financial advisors who were successfully incorporating alternative investments within their client's retirement plan. Feasibly, by using the qualitative method, I explored and supported my central research question. The quantitative researcher uses numerical data to examine the relationship between independent and dependent variables (Yin, 2018). Accordingly, the quantitative researcher analyzes variables to determine a correlation, significance, or relationships by testing theories using hypotheses (Antonakis, Bastardoz, Liu, & Schriesheim, 2014; Westerman, 2014).

I did not use a quantitative research method because I explored in-depth how financial advisors are successfully incorporating alternative investments in their practice. Researchers using a mixed methods approach include both quantitative and qualitative data in their study (Yin, 2018). Typically, mixed methods researchers examine and explore issues related to an organizational problem by merging quantitative and

qualitative techniques in one study (Archibald, 2015; Fetters, 2016; Patton, 2015). Since my research does not require analyzing or comparing variables, the quantitative and mixed methods design was not appropriate. Bristowe, Selman, and Murtagh (2015); Cairney and Denny (2015); Gergen, Josselson and Freeman (2015) suggested the qualitative method is most suitable if a researcher's goal is to gain an empathetic appreciation of the phenomenon which supports the specific research question. Therefore, the qualitative approach was most appropriate for my study.

Research Design

I employed a multiple case study design to explore the alternative investment strategies financial advisors use to diversify and enhance the growth of their client's retirement assets. Researchers use a case study method to explore a phenomenon in its real-life context instead of just measuring it over a specific period (Dasgupta, 2015; Yin, 2018). According to Grossoehme (2014) and Witts (2016), researchers use the case study design to explore multiple cases within one or several organizations using different time intervals. The design of my study conforms to the research methodology as defined by Yin (2018) and the exploratory characteristics such as investigating the phenomenon, identifying essential categories of meaning, and generating a hypothesis for further research, as outlined by Marshall and Rossman (2016).

The ethnographic researcher studies the culture of a group of participants or individuals over a prolonged period (Baskerville & Myers, 2015; Grossoehme, 2014; Yin, 2018). The ethnography design was not suitable for my study. Accordingly, Merriam (2014) stated that the phenomenological model is only ideal if researchers plan

to study the lived experiences of participants. In contrast, the grounded theory design is more appropriate for researchers expanding on a theory (Khan, 2014). Thus, the ethnography, phenomenology, and grounded theory were not suitable for my specific study.

Cleary, Horsfall, and Hayter (2014) stated that data saturation occurs once respondents provide the same answer to the research questions. Horter et al. (2014); Yu, Abdullah, and Saat (2014) suggested using the same open-ended questions throughout the interview process. I reached data saturation when I received repeated answers from different participants. For instance, the repetitive use of words, phrases, and investment terminology suggested data saturation. Onwuegbuzie and Byers (2014) and Yin (2018) suggested that researchers use at least two sources of data, such as interviewing and reviewing relevant company documents as a method to reach data saturation. I used interviews, relevant company data such as marketing materials, and the firm's public Form ADV to reach data saturation.

Population and Sampling

The population for my study were individual financial advisors working for independent RIA firms who are successfully incorporating alternative investments into their client's retirement portfolio. Participants who have experienced the phenomenon make up the population (Malterud, Siersma, & Guassora, 2016). I initially interviewed four financial advisors at their firm's office or conference rooms to allow the participants to feel comfortable in their environment. To ensure data saturation, I was prepared to continue the interview process with other targeted financial advisors if necessary. By

repeatedly interviewing and following up with participants to obtain clarity, performing member checking, and conducting methodical triangulation, I ensured data saturation. I expected the participants would answer the overarching interview question: what alternative investment strategies do financial advisors use to enhance, grow, and diversify their clients' retirement assets?

I chose the participants based on purposeful sampling. Researchers use purposeful sampling to select experienced participants who can provide information and knowledge related to the phenomenon (Benoot, Hannes, & Bilsen, 2016; Faseleh-Jahromi, Moattari, & Peyrovi, 2014; Yin, 2018). Robinson (2014) popularized the inclusion and exclusion criteria for selecting sample participants. In my study, the inclusion criteria were financial advisors from advisory firms who had successfully incorporated alternative investments into their client's investments. Contrarily, exclusion criteria of financial advisory practices are advisors' who had not initiated alternative investments in their client's investments. Researchers in qualitative studies select the sample size to focus on the quality of the participants over the quantity (Grossoehme, 2014; O'Halloran, Littlewood, Tod, & Nesti, 2016). Qualitative researchers predominately carry out multiple case studies with sample sizes of three to five participants (Robinson, 2014; Yin, 2018). I began with a sample size of four RIA firms within a 200 mile radius of Augusta, Georgia. These advisors had at least 5 years or more experience working with investment management for individual clients and incorporating alternative investments into their investment management program.

Ethical Research

Upholding ethical principles to protect participants during the interview process is one of the most critical steps in the interview process. The Belmont Report outlines the various aspects of ethical research typically associated with interviewing participants, such as justice, beneficence, and principles of respect to persons (U.S. Department of Health & Human Services, 2015). One crucial part of the ethical research process is to gain informed consent to protect participants' rights and to secure their privacy (Hardicre, 2014; Patton, 2015; Yin, 2018). The participants agreed and signed the voluntary written informed consent form before beginning the interview process. The participants were free to withdraw from the proposed study at any time, with no adverse consequences. Additionally, all of the participants agreed to be audio recorded.

The best way to ensure the confidentiality of participants is to mask their names (Marshall & Rossman, 2016). I maintained confidentiality by using a generic naming process for participants, Participant 1, Participant 2, and so forth. I am the only person who knows the names of the participants and their responses. I am keeping the identity of the participants and their interview responses in a separate secure area. While gathering, storing, and analyzing data, it is vital to protect the participant's privacy and protect their rights (Beskow, Check, & Ammarell, 2014). I am keeping electronic storage of participants' data, along with any hand-written material, in a secure storage facility for 5 years with a password protective capability to conform to Walden University's IRB requirements. After 5 years, I will destroy all the data. I obtained written approval for

the DBA study from the Walden University's IRB. The Walden University IRB approval number is 06-14-19-0312794.

I did not offer incentives to the participants to take part in the interview. To reduce bias, I used the same questions along with probing for responses as necessary (see Appendix B). I offered copies of the transcript to all participants for review to ensure accuracy and gain the trust of the contributors. Ethical requirements also imply the researcher will take into consideration the personal and employment situation of the participants to conform to the organization's policies and procedures (Hoyland, Hollund, & Olsen, 2015; Mealer & Jones, 2014).

Data Collection Instruments

In a qualitative study, the key data collection instrument is the researcher (Bourke, 2014; Marshall & Rossman, 2016). In a qualitative case study, the primary source of data comes from interviews (Neusar, 2014). According to Yin (2018), the qualitative researcher collects additional data from material obtained from participant observation, archival records, observations during the interview process, and physical artifacts. Jones, Simmons, Packham, Byonon-Davies, and Pickernell (2014), believed that collecting data from observing participants adds credibility to the study. Therefore, according to Cope (2014), the researcher is the primary instrument of data collection. For this study, I collected data from semistructured face-to-face interviews using open-ended questions, the advisor's brochures, the company's website, and the firm's documented form ADV. I interviewed four participants allowing for additional backup participants if needed (see a sample of the interview protocol in Appendix A).

Cope (2014) suggested researchers collecting primary data may interject bias into their study. Therefore, as indicated by Jaradat, Keating, and Bradley (2014); Waller, Hockin, and Smith (2017), to reduce the possibility of bias and increase the credibility and reliability of my research, I used NVivo 12 Pro software to analyze the data gathered from interviews. Additionally, Birt, Scott, Cavers, Campbell, and Walter (2016) recommended using member checking from participants to validate the data collected during the interview process. I emailed each participant a copy of the transcribed interview for their assessment. As a final measure, Berger (2015) suggested applying reflectivity during the interview process to establish rigor and counter any personal opinions during the research process and while documenting the findings. I adhered to these concepts.

Data Collection Technique

My central research question was: What alternative investment strategies do financial advisors use to enhance the growth and diversification of their clients' retirement assets? I used established qualitative interview protocols as my primary data collection technique. Researchers use semistructured interviews to encourage participants to allow participants to articulate their viewpoints and to ask follow-up questions to clarify and explore the phenomenon under inquiry (Marshall & Rossman, 2016; McIntosh & Morse, 2015). Moreover, Percy, Kostere, and Kostere (2015) noted open-ended questions could increase the validity of the data.

I determined the best time and place for the interviews via email and personal phone conversations 15 days before the day of the interview. Allowing a large block of

time for distractions and unforeseen circumstances is a prudent strategy necessary to incorporate into the interview process. I sent a confirmation email one day before the meeting. The location of the interview meeting was at the advisor's firms in their conference rooms. I began the data collection process once I arrived at the advisor's firm by taking notes and observing the surrounding area. Additionally, I gathered pamphlets and company literature. I also sought permission to keep a copy of the firm's form ADV for additional data collection.

I handed a copy of the consent form to the participant for review before beginning the interview. Onwuegbuzie and Byers (2014) recommended building rapport through initial conversation to allow participants to feel at ease with the interview process. Once I completed the interview transcription, I gave each participant a copy of my interpretation for review and acknowledgment of the pertinent facts presented and to correct any errors or discrepancies. This additional step, known as member checking, enhanced the reliability of the data. After all revisions, the corrected copy of the transcript was sent back to the participant to undergo additional review. Finally, I imported the transcribed data into the NVivo program for coding and discovering any emerging themes.

Data Organization Technique

De Waal, Goedegebuure, and Tan Akaraborworn (2014) emphasized that data organization is an essential aspect of data analysis. The role of a data analyst is to classify data into themes for proper interpretation of the data collected (Beskow et al., 2014; Brennan & Bakken, 2015). I used a journal log to collect data from interviews

such as time and date, observations of body language, and other nonverbal communication. I recorded all interviews with a hand-held audio recorder; my secondary recording device was my smartphone. Each device underwent testing before the interviews. Maintaining the integrity of the audio recordings is vital for organizing the research data (Beskow et al., 2014; Corbin & Strauss, 2014).

I assigned each participant an identifiable generic label (e.g., Participant 1, Participant 2, Participant 3, and Participant 4) to protect their identity and confidentiality. Brennan and Bakken (2015); De Waal et al. (2014); and Korhonen (2014), recommended all researchers categorize and label interview information to protect the confidentiality of the participants. As supported by Marshall and Rossman (2016) and Vohra (2014), I marked the transcripts and audio recordings using the participant's identifiable label to provide consistency and maintain confidentiality.

Yin (2018) recommended transcribing the audio recording soon after completing the interviews. To protect the data obtained, I downloaded the recorded interviews and transcriptions to an external hard drive encrypted with Microsoft BitLocker. I also produced a backup of the data using an encrypted USB Flash drive. I will keep both the external drive and the backup Flash drive, along with all additional secondary documentation, in a locked storage cabinet for a minimum of 5 years before destroying to comply with IRB requirements.

Data Analysis

Researchers use a qualitative case study to explore a detailed analysis of an actual phenomenon using multiple variables and sources of evidence (De Massis & Kotlar,

2014). Therefore, I chose a qualitative case study to explore the changing methods of investment planning within the financial service industry. I used a cross-case analytical technique. Researchers use a cross-case technique to discover themes related to these cases (Houghton, Casey, Shaw, & Murphy, 2013). According to Carter, Bryant-Lukosius, DiCenso, Blythe, and Neville (2014); Fusch and Ness (2015), researchers use methodological triangulation to compare people, time, and space by examining multiple sources of data and methods experiencing a similar phenomenon. Methodological triangulation is the most common method of triangulation utilized in case studies (Anney, 2014; Wood, Gilbreath, Rutherford, & O'Boyle, 2014). I used methodological triangulation to enhance the interpretation of the findings and support the validity of my interviews.

Fusch and Ness (2015) recognized the skill of the researcher depends on their ability to reach data saturation. Fusch and Ness (2015) also suggested the researcher choose the most significant participants to aid in providing rich data instead of concentrating on the number of participants. I selected participants who have successfully implemented alternative investments in their investment planning and portfolio construction. I interviewed four participants, but I was prepared to continue the interviews beyond the four participants until I reached data saturation.

My data collection technique comprised of seven open-ended questions asked through face-to-face interviews, the examination of each firm’s ADV form, and other company brochures and marketing materials. I recorded all conversations with a handheld voice recorder and transcribed the data manually. Member checking is an

essential part of the verification process to ensure the accuracy of the compiled data (Harvey, 2015). I used member checking by reviewing interview responses with supplemental information provided by the company, such as firm pamphlets, website information, and the firm's form ADV. I sent all participants my interpretation of the transcription to verify the authenticity of the data captured. Accuracy, reliability, and validity are best verified using member checking by the participants soon after completing the interviews (Yin, 2018). Therefore, I accomplished this task immediately following the transcription and interpretations.

NVivo software is a valuable tool the researcher uses to analyze the data collected and assist in coding the various themes which emerge from the data (Yin, 2018). Researchers find the NVivo software program affords them the ability to analyze unstructured data and discover themes (Castleberry, 2014; Lensges, Hollensbe, & Masterson, 2016; Sotiriadou, Brouwers, & Le, 2014; Zamawe, 2015). Even though NVivo software does not automatically discover themes, researchers use the software to visualize emerging themes from the coded data to alleviate the traditional manual coding (Zamawe, 2015). Researchers use NVivo software to make a comparison function check to test the consistency and reliability of the coding process (Woods, Paulus, Atkins, & Macklin, 2016). I used the current version of NVivo software to detect emerging themes.

I inputted the following data into the NVivo software program (a) interview transcripts, (b) interview notes, (c) form ADV, and (d) company marketing documents. Researchers must also recognize themes resulting from the coding process, which directly relates to the research question (Braun et al., 2014; Pascoal et al., 2014). Researchers

code the data into themes and display the resulting ideas using tables and figures (Connelly, 2014; St. Pierre & Jackson, 2014). Researchers use NVivo software to conduct thematic analysis, recognize patterns and keywords to gain insight into the interview data, to help analyze the data, and display the themes using tables and figures (Braun et al., 2014; Emmel, 2015; Jonsson & Tolstoy, 2014; Pascoal et al., 2014; Percy et al., 2015). I took advantage of these tools and concluded my data analysis by interpreting the findings.

Reliability and Validity

The basic tenets researchers use to certify authenticity and validity in qualitative studies include: (a) dependability, (b) credibility, (c) transferability, and (d) confirmability (Elo et al., 2014). Consequently, researchers use reliability to ensure the replication of test results and validity to confirm the accuracy of the data (Yin, 2018). Reliability and validity techniques are necessary to sanction the data is accurate and trustworthy.

Reliability

Researchers use consistency in measuring data to establish reliability (Noble & Smith, 2015). Dependability is the stability of the data over time using varying conditions (Elo et al., 2014; McCusker & Gunaydin, 2015). Dependability is a clear research process easily replicated (Kihn & Ihantola, 2015). Researchers use dependability to prove the themes extracted from the data match the conceptual framework used in the study (Trainor & Graue, 2014). Thomas (2017) described how the interaction between the researcher, the collected data, and the accuracy of the researcher

to assemble the information appropriately, will enhance the dependability of the research. To ensure reliability, I used member checking, triangulation, and rigorous adherence to interview protocols.

Using member checking by researchers not only improves the quality of the data but also helps minimize the researcher's bias during the analysis and interpretation process (Anney, 2014). I used member checking to confirm the data appropriately gathered represented the intentions of the participants. To further enhance the confidence of my findings, I employed triangulation. Mayer (2015) defined triangulation as researchers using more than one source of data collection to help answer the research question. Finally, researchers that use a rigid interview protocol will increase the dependability of a study by assisting in the process's replication (Lub, 2015). Therefore, I used the interview protocol in Appendix A.

Validity

Qualitative researchers typically establish credibility, transferability, and confirmability of their research findings (Yin, 2018). Researchers establish validity by ensuring that the research findings correctly reflect the phenomenon of the study (Dean, 2014), and the researcher's interpretations accurately match the data discovered (Gonzalez, Rowson, & Yoxall, 2015; Munn, Porritt, Lockwood, Aromataris, & Pearson, 2014; Shekhar, 2014). Researchers establish credibility by correctly displaying their knowledge of the topic under inquiry and supporting their findings with data (Kihn & Ihantola, 2015). Additionally, researchers use member checking and methodological triangulation to increase the credibility of the results (Houghton et al., 2013). I used face-

to-face interviews, the firm's Form ADV, and miscellaneous company literature to confirm credibility.

Transferability is the researcher's ability to transfer findings to larger audiences or other studies (Elo et al., 2014; Houghton et al., 2013). The qualitative researcher must use transferability to appeal to all readers (Cope, 2014). Yin (2018), believed the results of case studies could only transfer to the population of the specific research. I applied the findings from my study to other financial advisory firms and advisors. Researchers could use the results from my study to conduct further research into the diversification of alternative investments into a traditional investment portfolio. This study warrants future quantitative analysis to confirm my research results.

Readers rely on confirmability to understand how the interpretation of the findings connect to the data previously extracted (Cope, 2014; Kihn & Ihantola, 2015; Woods et al., 2016). I displayed confirmability by providing a detailed analysis and interpretation of the findings and discussed how the results support the data attained. I was mindful of my personal biases and how these may influence my interpretations. I used NVivo software to identify emerging themes, which will further reduce personal biases. Additionally, the researcher should meticulously document all findings allowing an easily identifiable audit trail (Bloomberg & Volpe, 2015; Kihn & Ihantola, 2015). I recorded my results in an electronic document containing notes for the project.

Qualitative researchers that achieve data saturation also increase the reliability and validity of their findings (Elo et al., 2014). Researchers achieve data saturation in multiple case studies when no new evidence emerges (Marshall, Cardon, Poddar, &

Fontenot, 2013). Limiting the sample size to a local geographical area with participants who are experiencing the same phenomenon also ensures data saturation (Robinson, 2014). I interviewed four participants within a 200-mile radius of Augusta Georgia. However, I was prepared to continue interviewing participants until I reach data saturation.

Transition and Summary

In Section 2, I provided a more detailed description of the research method and design, the sampling methods, the data collection techniques, accompanied by processes of assuring the reliability and validity of the study. In Section 3, I present the findings, recognize the applicability to professional business practices, implications for social change, and recommendations for further study and action steps. I complete Section 3 with a reflection on my experience during the research, along with the conclusion.

Section 3: Application to Professional Practice and Implications for Change

In this section, I present the findings identifying how financial advisors are incorporating alternative investment strategies into their client's retirement and investment portfolios. Section 3 includes discussions on emerging themes, the application for professional practice, the implication for social change, a recommendation for action, and the recommendation for further research. This section concludes with the reflections on the research process and the study's conclusion.

Presentation of Findings

The purpose of this multiple qualitative case study was to explore alternative investment strategies financial advisors can use to enhance the growth and diversification of their clients' retirement assets. The study's participant included four independent financial advisors who use alternative investments in their practice to diversify their client's investments. The data came from personal face-to-face interviews, marketing literature collected from the individual firms, including websites, and the firm's form ADV. Table 2 shows the demographics of the participants.

Table 2

Participant Demographics

Independent Advisor	Gender	Years as an advisor	Number of Employees in Firm
Participant 1	Male	22	5
Participant 2	Female	15	5
Participant 3	Male	18	108
Participant 4	Male	25	34

The research question for this study was: What alternative investment strategies do financial advisors use to enhance the growth and diversification of their clients' retirement assets? The population comprised of four independent financial advisors in the states of Georgia and South Carolina. All participants have earned professional designations such as certified financial planner, chartered financial analyst, certified investment management analyst, certified public accountant, certified long-term care, and chartered alternative investment analyst. I used the Internet, email, and telephone to locate and screen independent financial advisors who use alternative investments in their advisory practice.

I used the NVivo 12 analysis software to organize and code the interview transcripts, company documents, including form ADV brochure, and to help discover relevant themes emerging from the data. The emerging themes include: (a) risk associated with alternative investments, (b) noncorrelated diversified assets, and (c) increased returns and growth. I used member checking and data saturation to improve the reliability and validity of the study results. The following data and preceding paragraphs present the information about these findings. These themes align with the conceptual framework of the MPT. Table 3 displays the emergent themes.

Table 3

Emergent Themes

Themes	# of respondents who identified the theme	Total # of references all files	Total # of coded references
Risk associated with alternative investments	4 of 4	105	27
Noncorrelated diversified assets	4 of 4	65	20
Increased returns and growth	4 of 4	374	68

All four participants identified several alternative investments used in their practice. The most prevalent alternative investments among the participants involved the use of private equity, private debt, real estate, and hedge funds. The advisors had comparable yet varied responses regarding the use of alternative investments. The diverse nature of each advisor and their use of alternatives resulted in the heterogeneous answers. The unique strategies used by the participants include the purchase of fractional car dealership interest, market neutral strategies, and arbitrage strategies. The participants varied with their response to the percentage of alternative investment assets each employ in their practice from 8-33%. The most common alternative investments acknowledged and used by the participants are listed in Table 4 below.

Table 4

Alternative Strategies Used

Alternative Strategies	# of respondents who identified the strategy
40 Act mutual funds	1
Hedge funds*	3
Private equity*	3
Managed futures	1
Market neutral	2
Arbitrage	2
Real estate*	4
Limited partnerships	2
Private debt funds*	3
Venture capital funds	1
Private energy funds	1
Distressed opportunity funds	2
Derivatives	2
Commodities	1
Natural resources	1
Peer-to-peer Lending	1
Mortgage REITs	2

Note. * indicates 3 or more participants used this strategy

These alternative investments are typical for the financial service industry that is still struggling with identifying alternative investment strategies to use for their clients. All the participants indicated a need for alternative investment options; however, it was readily apparent the smaller firms were still struggling with identifying workable solutions.

Emergent Theme 1: Risk Associated with Alternative Investments

The first theme which emerged after a detailed analysis is the risk associated with alternative investments. All the participants identified this theme. Generally, financial

advisors are conscious of the risks with the investments they recommend for their clients. Because of the illiquidity of many alternative investments, financial advisors may be apprehensive about suggesting to their clients to add alternatives in their retirement portfolio. Additionally, government regulations restrict certain alternative investments to only accredited investors. Table 5 shows the theme and the number of times the participants or their public literature referenced risks associated with alternative investments.

Table 5

Emergent Theme: Risks Associated with Alternative Investments

Theme	# of respondents who identified the theme	Total # of references
Risks Associated With Alternative Investments	4 of 4	105

It is not surprising that risk among portfolio allocation continues to dominate the investment management concerns for financial advisors and their clients. Adding alternative investments to the mix of assets during the construction of retirement portfolios increases the risks associated with these products and strategies because of the inherent nature of alternatives. Alternative investments have a higher overall risk profile considering their proclivity for illiquidity. Platanakis et al. (2019) concluded that transaction costs are higher for alternative investments because of their frequency of turnover. The author also considered that estimation errors among alternative investments in the early stages of their formation are the primary culprit for the harmful performance of alternatives. However, Lowies, Whait, Viljoen, and McGreal (2018)

expressed optimism that alternative finance platforms will ease the risk concerns of investing in fractional real estate as well as allowing first-time buyers the opportunity to invest.

Another method that is finding favor among scholars and practitioners is portfolio optimization across multiple investment portfolios. This method keeps risks associated with one type of asset from cross-contaminating other investment assets. Chakravorty, Awasthi, Srivastava, Gupta, and Singhal (2019) and Ji and Lejeune (2018) studied risk-budgeting portfolios to determine the optimal portfolio considering the risk constraints. Ji and Lejeune (2018) discovered that constructing multiple risk-adjusted portfolios is the preferred method to build and optimize portfolios because it promotes diversification, thus reducing marginal risks. Chakravorty et al. (2019) proposed a general risk budgeting portfolio construction and risk-based asset allocation techniques to optimize investment performance.

University endowments, which have regularly increased their holding in alternative investments, are also discovering the value of multiple investment portfolios. Liaw (2020) observed that smaller university endowments could not replicate the successes of larger universities. One explanation, expressed by the author, is that larger universities rely on the research of specialized alternative investment managers in each asset class, thereby noting successful investing in alternatives is more complicated than just allocating money.

All the interview participants expressed concern about the risks associated with the use of alternative investments. Participant 4 expressed the need to allow clients to

decide how much risk they will take and suggested the control of risk should not be left solely to the advisor. He stated,

> Our view on alternatives may be a lot different because a lot of people try to put their money in a marketplace and use the product to control risks. We say decide on how much risk you are willing to take first but use alternatives to create wins across more environments.

Participants 1 and 4 articulated risk concerns related to the low-interest-rate environment because of the compressed interest rates established by the Federal Reserve. Long-term bonds do not yield enough to keep up with inflation. Participant 1 referred to the increased use of alternatives to counter the government's strategy to suppress interest rates by stating:

> Some of the things that we do certainly would be a reaction to low-interest rates. We probably would not be in some, not all, but some of the strategies if we had a more normalized interest rate, whatever is normalized anymore because rates have been low for so long.

Participant 2, when defining the use of alternatives, stated:

> … you've got to be extremely careful and have a good vetting system on the backside because we don't want to put anybody into anything that might be a scam or you know not what they say it's going to be since it's not regulated on the Stock Exchange.

Interestingly, Participant 3 used alternative investments to diversify a person's retirement investments to reduce overall risks as posits by Markowitz MPT doctrine. The risks

identified by the participants using alternative investments include diversification of assets, suppressed interest rates, nonregulated investments, and investor proclivity to accept risk.

Risks associated with alternative investments and conceptual framework. The emergent theme of the risks related to alternative investments aligns with the theoretical framework of MPT concerning minimizing investment risks within the investment portfolio by enhancing diversification strategies designed to optimize an investment portfolio given any level of risk (Markowitz, 1952). Diversification should include different types of traditional stocks and alternative investments, as illustrated by the participants interviewed. The literature review previously presented supports further diversification into alternative investments to minimize investment risks. Geczy (2014) stated risk diversification into alternative investments become core diversifiers to protect investors from the typical high correlation to existing assets and risks.

Emergent Theme 2: Noncorrelated Diversified Assets

The second theme which emerged after a detailed analysis of coding is noncorrelated diversified assets. All the participants I interviewed identified this theme. Many financial advisors assume noncorrelated diversified assets comprise stocks invested in different economic markets or countries. However, noncorrelated assets should not follow stock market ebbs and flows. Table 6 shows the theme and the number of times the participants or their public literature referenced increased returns and growth.

Table 6

Emergent Theme: Noncorrelated Diversified Assets

Theme	# of respondents who identified the theme	Total # of references
Noncorrelated Diversified Assets	4 of 4	65

In portfolio theory, diversification is the key to eliminate risk exposures and to obtain the highest expected return for investors (Martellini & Milhau, 2018). The authors contended that using factor-based investing is a better approach to reduce overall risks associated with portfolio investing. However, if the investor houses all their multi-asset investments within the stock exchanges, regardless of the diversification of asset factors, investors expose themselves to the same correlation of assets. In the previous literature, Santacruz (2014) acknowledged that constructing strongly correlated investments in a client's portfolio using only equities or bonds without incorporating alternatives may lead to portfolio failure. Junttila, Pesonen, and Raatikainen (2018) discovered that noncorrelated commodities such as gold futures might be more attractive during periods of financial crisis or when experiencing a low-interest-rate environment.

When Participant 1 was defining alternative investments, the advisor referenced their noncorrelated qualities by stating: "Alternatives may mean, on one end of the spectrum, very aggressive, less liquid speculative investment and on the other end a very truly hedged noncorrelating strategy." Participant 2 also related an atypical noncorrelated asset when the advisor described one of their investment strategies: "We've got entertainers and book writers that have royalties and things like that we really consider all

of those uncorrelated potential income streams." Feng, Wang, and Zhang (2018), in their research on cryptocurrencies as an alternative investment, quantified cryptocurrencies as an excellent diversified noncorrelated asset. Shahzad, Bouri, Roubaud, Kristoufek, and Lucey (2019) concurred with Feng et al.'s (2018) findings that Bitcoin (the most common cryptocurrency) is a valuable stock diversifier. Participant 4 identified with the above authors in using cryptocurrencies when the advisor discussed the difficulty finding short duration debt instruments because of the central banks' current "risk control function." Participant 4 stated: "Candidly, the short function has been to be long cryptocurrency because it is a monetary inflation or hyper-inflationary trade."

Within the literature handouts on alternative investments, Participant 3 firm's statement reiterated the diversification and noncorrelated properties of private alternatives by stating: "… private alternatives are often uncorrelated to traditional asset classes and can have greater diversification potential when taken in the context of a total portfolio." Participant 3 works for a large financial advisory practice. Their firm employs a full staff of investment managers who exclusively perform research on traditional and alternative investments. In the ADV form of their firm, it is apparent they commonly research and invest in outside private markets to include real estate, private equity, natural resources, and distressed debt.

Noncorrelated diversified assets related to the conceptual framework. Markowitz (1952) recognized that the less correlated or independent the assets in a portfolio, the less inherent systematic risk. Therefore, the noncorrelated diversified asset theme also conforms to MPT. By extending MPT to include alternative investments,

financial advisors may possess a tool to diversify further and achieve noncorrelated non-stock market returns for their client's retirement assets. By not relying solely on the volatile stock market to plan for retirement, investors may discover using alternative investments enables the extension of retirement assets into their later years.

The increasing use of alternative investments is reshaping the multi-asset portfolios used by financial advisors and planners (Agarwas, Pathak, & Shaw, 2019). Investors who are still wary after the financial crisis of 2008-2009 are searching for ways to control the risks and volatility of traditional stock assets. The low interest rate environment has eliminated investments into bonds and cash equivalents. Alternative investments are considered diversifiers against traditional assets of stocks and offer noncorrelated returns. Agarwas et al. (2019) discovered various trends, such as additional allocations to alternative investments and improved risk mitigations. The authors also revealed the use of multiple alternative asset classes used by investors to diversify their investment portfolios.

Emergent Theme 3: Increased Returns and Growth

After in-depth questioning from interviews and reviewing additional company material such as brochures and form ADVs, the third and final theme of increased returns and growth emerged. Interestingly, all participants mentioned several alternative investment strategies but also expressed their one preferred alternative. Table 7 shows the theme and the number of times the participants or their public literature referenced increased returns and growth.

Table 7

Emergent Theme: Increased Return and Growth

Theme	# of respondents who identified the theme	Total # of references
Increased Returns and Growth	4 of 4	374

The alternative investments identified by the participants include private equity, direct and fractional real estate investments, liquid alternatives, hedge funds, private placements, and limited partnerships. Additionally, all participants either identified or provided material showing at least one unique alternative investment strategy, which is increasing and growing their client's retirement portfolio. Both Participants 1 and 4 identified market neutral strategies as their preferred alternative. However, Participant 4 identified a specific market neutral strategy of merger arbitrage. Market neutral strategies are not new. Hedge fund managers continue to use these types of approaches for their clients. Market neutral strategies, as defined by Nicholas (2000) in his book *Market Neutral Investing: Long/Short Hedge Fund Strategies*, refers to this strategy as the act of eliminating risks and taking advantage of the upside and downside of a market. Merger arbitrage is an investment market neutral strategy whereby investors purchase and sell stocks of two merging companies to realize the benefit of the stock price before and after the merger called the arbitrage spread (Rzakhanov & Jetley, 2019). Participant 1 also identified a specific alternative investment strategy described as *40 Act Mutual Funds* stating: "We can go deeper into the categories such as hedge funds, we have private equity, and we have 40 Act mutual fund strategies." These funds are a form of

liquid alternatives as described earlier in the literature review and defined by Lewis (2016) as a hedge fund derivative investment. The 40 Act Fund derived the name from the United States Securities and Exchange Commission creation of the *Investment Company Act of 1940* to regulate mutual funds (Investment Adviser Act of 1940).

Participant 2 identified real estate, both fractional ownership and direct real estate investments, especially single tenant triple net leases, as their go to alternative investment strategy that is performing well for their clients. Participant 2, when describing investing in real estate triple net leases to her clients, states: "I always tell my clients look like you're owning a property without having to deal with the toilets and the you know plumbing and all that kind of stuff." As previously discussed, Cheng et al. (2017) studied direct real estate investment alternatives and proposed extending MPT by modifying the model to fit real estate assets.

Fractional ownership of real estate is not a new concept. Investment vehicles such as REITs, Private Placements, Partnerships, Tenancy in Common, and Delaware Statutory Trusts are legal entities that use fractional interest in real estate properties. Today, the rise of digital platforms and FinTech have allowed a new form of fractional investing called CF to rise in popularity, especially among younger, more experienced computer savvy investors (Lowies, Whait, Viljoen, & Mcgreal, 2018). According to the authors, CF lowers the barriers to entry. Additionally, CF is very appealing to a younger age group who are supplementing their traditional investment portfolios in stocks with alternative investment vehicles (Lowies et al., 2018). Government regulations and high financial entry into conventional forms of fractional ownership have limited the

investment to more affluent investors. CF has opened the doors to smaller amounts of capital requirements, and digital investment platforms have lessened the burdens of paperwork requirements (Lowies et al., 2018). Moreover, the authors found individuals aged 55 and above purchased fractional real estate expecting to capitalize on property appreciation and rental income.

Participant 3 did not identify any specific alternative investment unique to their company during the interview. However, on their company website is a comment concerning diversification: *Diversify clients' portfolios to target superior risk-adjusted long-term returns based on modern portfolio theory*. This firm adheres to the tenants of MPT concerning traditional and alternative investments. Nevertheless, their firm's ADV established the extensive use of *pooled hedge funds* and the use of their own mutual fund families containing diverse investment objectives.

Increased returns and growth related to the conceptual framework. The emergent theme of increased risk and growth also conforms to the tenants of MPT. Markowitz (1952) expressed the necessity to include investments that have an inverse relationship to each other, or dissimilar correlation to existing securities, to improve the portfolio gains and minimize the overall risks to the investment assets. Increasing returns and growth was the most dominant theme discovered during my analysis, with 374 references. Even after coding the answers to the interview questions, the increased returns and growth theme was three times more visible than the other two themes.

Application to Professional Practice

The specific business problem that grounded this study was that some financial advisors lack alternative investment strategies to meet the demands of their clients for increased diversification and growth on assets designated for retirement. The old familiar traditional practices no longer serve financial advisors who want to increase profits and grow their business. Inadequate or outdated operational functions often lead to business failure (Amankwah-Amoah, 2016). Financial advisory practitioners face several challenges to remain relevant in their industry. Badwan, Al Shobaki, Naser, and Amuna (2017) stated that there are three fundamental dimensions that need to interconnect, *strategy*, *philosophy*, and *technology* for organizations to succeed in customer relationship management. Therefore, financial advisors must learn to adopt an improved philosophical foundation, determine a new approach to meet client demand, and restructure their firms to align more closely with the automation technology pervading their industry.

The themes identified in this study closely align with MPT. The efficient frontier, as hypothesized by Markowitz (1952), is derived from the ideal combination of assets within portfolio construction that provides the maximum return but minimizes investor risks. The theme of increasing the profits and growth of retirement assets was the top priority for investors, according to the participants of my study. The risks associated with alternative investments, especially their non-liquidity nature, must also be addressed. However, the volatility of the public stock market lends credence to exploring noncorrelated assets, which does not follow traditional stock asset movements. Extending

MPT to incorporate alternative investments appears to be the best framework to offer guidance on identifying the risks and including noncorrelated assets, which may ultimately produce increased returns within the overall retirement portfolio allocation.

Institutional investors and public pension plan administrators are changing the financial industry by incorporating alternative investments within their investment portfolios. Chambers, Black, and Lacey (2018) expressed the idea that institutional investments, such as endowments, typically have a longer investment horizon than most individual investors. The increased use of alternative investments within personal advisory practices should follow the same course as their larger counterparts to satisfy their client's needs for increased returns, albeit with smaller investments and shorter investment periods. This study has the potential to assist financial advisors embark on a new phenomenon: the public stock market is only one investment marketplace to diversify their client's retirement assets.

Financial advisory practitioners face several challenges restructuring their firms to align more closely with the automation technology pervading their industry. Fintech is changing the way both advisors and investors are accessing financial products and services. Alternative investment platforms have emerged which specialize in one or more asset classes. CF and P2P network platforms are one example of how Fintech is revolutionizing the financial service industry. Woodyard and Grable (2018) concluded, in their findings on users who adopt Robo-Advisory platforms, that the younger generation views new technology as evidence of employing best practices in financial

planning. The challenge for financial advisors is how best to incorporate Fintech technology to serve their clients better and increase operational efficiency.

All the participants in my study expressed the added value alternative investments have provided their clients. These themes appear to form the foundation for adding alternative investments into an already diversified stock asset plan. Financial advisors may use the findings from this study to expand their practices by offering alternative investment strategies seamlessly into their client's retirement portfolio construction process. As a result, alternative investments may increase revenue streams for financial advisors while satisfying their client's needs to diversify assets.

Implication for Social Change

The purpose of this study was to explore how financial advisors can enhance the growth and diversification of their clients' retirement assets. The findings of this study have the potential to support social change by providing alternative investment strategies financial advisors can use in their business practice. These strategies may also open some options financial advisors can employ to strengthen their relationships with clients. Financial advisors may discover that adding alternative investments to a mixed portfolio, either as a separate strategy or within a general retirement portfolio, should improve the overall performance and reduce the downside risks of their client's assets. By improving the performance of client assets, retirees may find their retirement income will sustain their lifestyle well beyond the traditional stock and bond portfolios.

This study may contribute to social change by providing smaller advisory practice advisors strategies to improve their business operations, thereby increasing revenues and

stimulating job creations. The results of this study could also help financial advisory owners expand their businesses and become more profitable. Entrepreneurs are a critical component of our local economy and growth (Conroy & Weiler, 2015). Moreover, entrepreneurs have the potential to add jobs and social value to the local economy (Rey-Martí, Ribeiro-Soriano, & Sánchez-García, 2016). Furthermore, robust businesses could lead to social change by strengthening the local community (Deller & Conroy, 2017).

Other benefits of this study could extend beyond financial advisor's practices, such as the creation of additional jobs for specialized managers of alternative investments. Smaller advisory firms managers do not have the resources to research alternative investments suitable for their clients. Many smaller firms already turn to turn-key asset management platforms or Robo Advisory platforms to deliver stock and bond portfolio selections. Naturally, digital platforms with specialized investment managers for alternative investment selection may offer a workable solution for smaller advisory practice advisors who lack the resources of a separate research department typically found in medium and large advisory practices.

Recommendations for Action

The problematic issue facing financial advisors is how to engage alternative investments conveniently without incurring excessive risks for their clients. The themes identified in this study suggest financial advisors expect alternative investments to provide fewer risks, noncorrelated diversified assets, and increased yield. No alternative investment exchange or secondary market is available in the U.S. Absent regulatory stock exchanges; the next best thing is for the government to regulate alternative

investment platforms. Alternative platforms are designed to allow retail investors the opportunity to invest smaller amounts of capital to attain the benefits of alternative investments. Alternative investment platforms may solve the requirements expressed by financial advisors to decrease risks, diversify client's assets, and increase returns.

Institutional investors such as endowments and public pension administrators are steadily increasing their portfolio holdings in alternative investments. Private investors are also looking to capitalize on this new investment phenomenon because of the low-interest environment and increased diversification possibilities. The problem for individual investors is overcoming the significant financial investments required and assembling the research essential to become a serious player. Digital platforms are now offering a solution for private investors to become a formidable player in the alternative investment space. Using technology platforms is a resource to moderate the risks of alternative investments. Financial advisors must learn to adopt technology platforms to serve a larger audience, such as *Millennials* (Gold & Kursh, 2017).

Alternative investment platforms and those individuals who use these platforms to purchase investments are changing the transaction process for selling financial products and services. Much like the growing online retail sales, platforms for investments are becoming acceptable alternatives for personal interactions with financial advisors. CF platforms are no longer just appealing to the smaller investor. Alternative investment platforms are witnessing increased usage by angel investors (Wang, Mahmood, Sismeiro, & Vulkan, 2019). After investigating the data from CF platforms, Wang et al. (2019) discovered how both the angel investor and smaller investors complement one another

because the angel investors are funding more substantial investments while the smaller investor fills the lessor needs of *the crowd*. Maziriri, Mapuranga, and Madinga (2019) looked at the various risks associated with online trading platforms. The authors believe there is a lack of basic understanding of the dangers among online traders such as privacy, financial, and fraud. Maziriri et al. (2019) concluded with advice for marketing managers to work on improving customer trust and loyalty.

Digital platforms are making it more convenient to research investment alternatives and consolidate the reporting requirements (Hopkins, 2019). Hopkins (2019) also acknowledged that advisors and independent RIAs realize they must also adopt alternative platforms to placate their high net worth clients who are demanding they offer these types of investments. Finally, the author predicted that digital platforms would allow financial advisors to become more mobile and work anywhere in the world, expanding their business enterprise.

Along with digital platforms, financial advisors should consider third party specialists to provide various alternative investments. Specialized managers in real estate, natural resources, private capital, and debt offerings deliver high-quality investment opportunities. Two of the four participants in my research are large enough to have a research department that regularly identifies alternative investments to meet their client's needs. However, the smaller participants must rely on third party research and recommendations concerning alternative investment prospects suitable for their clients.

A final consideration is using multiple investment portfolios to mitigate risks associated with alternative investments. Extending MPT to incorporate alternative

investments is a viable solution. However, financial advisors should consider separate portfolios to prevent the cross-contamination of investments. For instance, investing in public REITs does not belong in the same basket as direct real estate investments. Fundamentally, public REITs are strongly correlated with the stock market, and direct real estate investments are more dependent on supply and interest rates. The concepts of MPT can still test the overall performance and diversification of all the assets.

The results of this study may provide financial advisors some insight into alternative investment resources and strategies that meet the needs of their clients. I will pursue avenues and venues to publish an abridged version of this study in scholarly and business journals. I will also disseminate the findings of this study to the participants. Additionally, I will continue to research and examine the use of alternative investment platforms as they emerge to satisfy the needs of financial advisors and investors.

Recommendations for Further Research

The goal of this multiple case study was to explore the alternative investment strategies financial advisors can use to enhance the growth and diversification of their clients' retirement assets. The findings of this study validate past literature and MPT doctrine. I limited this study to four financial advisors working as independent firm managers who use alternative investments in their practice. Two of the four advisors' firms were large enough to employ a research team to recommend alternative investments. The two smaller firms must rely on third party managers to locate alternative investment opportunities. This study also had a geographical limitation to

three advisors in Georgia and one advisor in South Carolina. I recommend further research on this topic in other geographic locations with a diverse population.

Other limitations in this study include a qualitative case study design that limits the transferability of the findings to a larger segment of financial advisors. I recommend an extensive quantitative study design to reach a broader audience of financial advisors who use alternative investments in their practice. Future quantitative researchers should focus on understanding the relationship alternative investment strategies have on the client's overall retirement portfolio. Additionally, a distinction should address the size of the financial advisory firms. Smaller firms are more likely to farm out their wealth management to specialized managers. In contrast, medium and large firms predominately have in-house wealth managers who perform the needed research.

Since beginning my research, the stock market has undergone a downward shift due to the COVID19 virus affecting economies worldwide. The economic outlook in the United States is in constant flux, and it is unknown how long this condition will last or if it will affect alternative investments in the future. Future research on alternative investment strategies must examine the current state of the economy to determine if any changes in my findings warrant updating.

Reflections

The experience gained through the DBA Doctoral Study process provided me with a lasting learning memory. I was concerned my experience and personal biases would hinder the study since I work in the financial service industry. However, I discovered that my experience in the industry was a positive attribute because it placed

the participants at ease during the interview process. Additionally, I mitigated personal bias by following an interview protocol with the same interview questions for each participant. I did not know any of the interview participants. I met each participant at their place of business, which provided a comfortable environment for them, enabling a positive outcome. My initial preconception was a short duration for acquiring interview participants based on the positive response I received for my proposed project from financial advisors. I did not fathom the time it would take to find and get participants to agree to an interview. I did not envision it taking over 6 months to complete the interview process.

There were two significant obstacles I did not anticipate would hinder my progress, compliance refusal to take part, and advisors agreeing to schedule a time to meet with me. I received most of my rejections from companies who did not want to take time out of their busy schedule for an interview. Second, several advisory firm's compliance officers refused to allow the advisor to take part in speaking about alternative investments to outside parties. Undoubtedly, the refusal to talk about alternative investments stems from the regulatory government oversight changes regarding the use of alternatives, mainly serving retail client's retirement investments.

The research process was both frustrating and challenging. Although there were many minor challenges to this project, the main problem was finding advisors who use alternative investments within their client's retirement portfolios and getting these advisors to agree to a face-to-face interview on their experiences using alternatives. After completing this study, I am more aware of the effect compliance requirements have on

financial advisors. As a financial advisor, I previously did not concern myself with compliance issues other than what immediately affected my clients. Now, I have a keener understanding of how the threat of government intervention, including excessive fines, can curtail the operations of an independent advisory firm.

Conclusion

The study results offered a clear message to financial advisors who are contemplating adding alternative investment strategies to their client's retirement portfolio. This study aligns with the themes I identified and with the current literature presented. This study confirms that MPT is still a viable solution to adopt, although with the inclusion of alternative investments. Financial advisors who augment alternative investments in their client's retirement portfolio may discover improved performance in overall returns with fewer risks. The addition of alternative investments in the portfolio construction phase will also satisfy investors who are seeking less correlation and diversification to typical stock and bond assets.

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Appendix A: Interview Protocol

I. Begin with a brief introduction.

II. Set up and test the voice recorder.

III. Review the consent form with the participant.

IV. Ask the participant to sign the consent form.

V. Summarize the objectives and use of the study, discuss the participant's rights, and assure the confidentiality of the participant's information and identity.

VI. Start the recording device.

VII. Using coded information, introduce the participant.

VIII. Record the date and time of the interview.

IX. Begin the interview by asking the first question on the list of questions.

X. Continue the discussion with the additional questions on the list, while asking follow-up questions to clarify or obtain more in-depth answers.

XI. End the interview with the last question on the list.

XII. Discuss with the participant how you will use member checking and triangulation of the data collected.

XIII. Thank the participant for taking part in the study. Verify contact information of the participants for any follow-up questions. Leave your contact information in-case the participants have concerns regarding the study.

XIV. End of the interview protocol.

Appendix B: Interview Questions

Interview participants will respond to open-ended semistructured questions to identify their experience with using alternative investment strategies to enhance their clients' retirement assets. The following open-ended interview questions will apply to this study:

1. What led you to add alternative investment strategies into your clients' retirement portfolio?
2. What types of investment strategies do you currently employ in your clients' retirement portfolio to catalyze growth and diversification?
3. What, if any, strategy changes have you made recently to adapt to the low-interest-rate environment your clients are experiencing in their fixed income retirement portfolios?
4. What alternative investment strategies have provided the best results for your clients?
5. What percentage of the overall client's retirement portfolio do you currently allocate to alternative investments?
6. What types of withdrawal strategies do you currently employ for your clients' retirement income?
7. How do you determine the appropriate percentage of alternative investments for your client's retirement accounts?