

## ECONOMIC COMMENTARY

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### YOUR WEEKLY ECONOMIC UPDATE

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#### REDEFINING WEALTH: ARE ALTERNATIVE ASSETS REWRITING THE RULES OF TRADITIONAL INVESTMENTS?

This week, we venture into the realm of alternative assets, where the mundane gives way to exhilarating possibilities. We discover the enchantment of cryptocurrencies, vintage wines, and fine art, all unconventional yet alluring avenues for wealth growth. This uncharted territory blends innovation with risk, rewriting the rules of traditional investments.

Alternative assets have multifaceted origins, emerging from historical practices and economic shifts over time. They are rooted in ancient traditions and civilizations, like the Sumerians, Egyptians, and Greeks, and tangible assets, like real estate and commodities that have gained value over centuries owing to their stability. Similarly, art collections, rare items, and fine wines transitioned into alternatives over the years. Modern concepts, like private equity, venture capital, and hedge funds, have grown in popularity owing to their low correlation with traditional assets and their ability to provide higher returns to investors than some traditional assets. And, of course, investors cannot forget cryptocurrencies which emerged with Bitcoin's inception in 2009. Despite the vast number of instruments in this space, there is a golden thread that connects them all: These assets are mostly sought after for their diversification and growth beyond conventional markets.

Alternative assets have come into the spotlight in recent years owing to several factors. Firstly, traditional markets have exhibited increased volatility, prompting investors to seek diversification and risk mitigation via unconventional avenues. Secondly, prior to 2022, low-interest-rate environments diminished returns from conventional investments, driving investors to explore alternatives for higher yields. Furthermore, advancements in technology and increased access have democratized access to alternative assets, allowing a broader range of investors to participate in this space. Finally, assets like cryptocurrencies and private equity, offer potentially substantial gains, attracting attention from both institutional and retail investors eager to capitalise on emerging opportunities.

Investors must, however, be cautious to not get carried away by all the promises of outsized returns and outsized fees as alternative assets present unique risks of their own. One of these is limited market liquidity, especially with art, collectables, private equity, and certain forms of real estate, which make these challenging to buy or sell quickly. Then there is regulatory uncertainty and technological vulnerabilities which can impact assets like cryptocurrencies. Private equity and venture capital could potentially see business failure. We have all seen several examples on the Johannesburg Stock Exchange over the last few years of private equity companies going under or struggling to stay afloat. It is, therefore, paramount that clients consult their financial advisor to ensure that they align their financial goals and risk tolerance with the instruments that they wish to invest in.

Given the mentioned risks, investors must still turn to the relative safety of traditional assets as the cornerstone of their portfolios. Equities, for example, still stand as the premier performer among asset classes over time, delivering superior long-term returns compared with other asset classes. Historical data shows equities' ability to outpace inflation and to generate wealth. With a stake in a company's ownership, investors share in growth and profits. Though subject to market fluctuations, disciplined strategies and diversification can mitigate risks, enhancing equities' appeal as a cornerstone of wealth accumulation and capital appreciation in investment portfolios.

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