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Financial boutique firms on the look-out for alternatives

THE ADVICE IS: PROTECT YOUR CAPITAL WITH A DIVERSIFIED PORTFOLIO OF SECURITIES WITH A FINELY JUDGED BALANCE OF CORPORATE BONDS AND CYCLICAL STOCKS

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First, avoid taking a big hit. In a situation so charged with unknowns, and with prices that most definitely are no longer cheap, the strategies followed by the financial boutique firms place the emphasis on defending clients' assets. That's in line with what high worth individuals have always sought, and it's a choice that sometimes requires alternative solutions with respect to the traditional asset classes.

"In a highly uncertain scenario, we suggest keeping a significant percentage in liquidity, which at present the banks are rewarding better that Treasury bills", explains Luca Riboldi, chief investment officer at Banor SIM. He points out that the yield curve for government bonds of up to two years is around zero.

"A significant proportion should be devoted to targeted investments in high-yield corporate bonds. Part should be in shares, if possible cyclical stocks, which are currently less penalised than defensive ones, and part in medium-term bonds with the focus on issuers with a very high rating". Some examples? Riboldi names global leaders like "Coca Cola, Apple and Procter & Gamble".

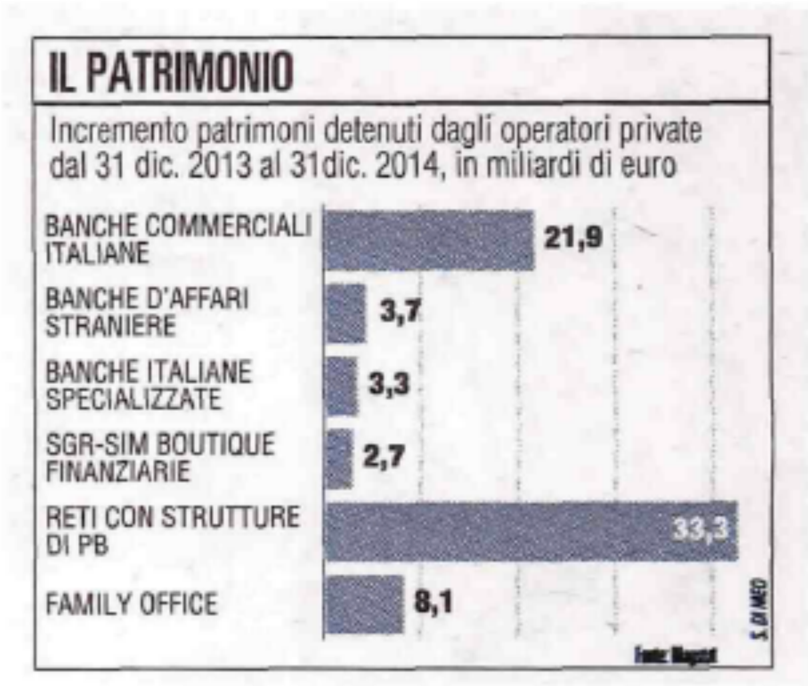
All accompanied by the need to use long/short funds that favour stocks viewed by the market as under-valued and sell short those they consider over-valued. The aim here is to generate returns even in a ranging market.

"In recent years traditional portfolio allocations have been remarkably effective in the relationship between yield offered and the risk borne by investors", notes Andrea Rotti, Asset Management Director at Ersel. "Factors favouring this phenomenon include, on the one hand, highly expansive global monetary policies which, by pouring enormous amounts of liquidity into the financial markets, have underpinned the prices of a multitude of financial assets. And, on the other, an economic context of gradual recovery, especially in the developed countries' economies, which has further favoured share prices".

The narrowing of spreads and the growth of multiples have changed the scenario and played a part in the return of volatility, which is also linked to the tensions in the emerging markets and the uncertainty over the Fed's next moves.

What to do now? "One possible solution is to accept a more significant component – of around 20-25% – of alternative investment plans when you're building up a portfolio", underscores Rotti. He gives some examples: flexible/tactical plans (with the possibility of switching investments depending on the investors' needs at any given moment), event-driven plans or arbitrage (for example by buying a stock traded on market X and re-selling it on market Y as a way of speculating on the different quotations of the stock), or plans based on algorithms, long-short equities or total return on credit.

Quadrivio SGR's strategy is to include an element of medium-long term investment in the portfolio. "We're focusing on closed-end funds that can be classified in two macro-areas", explains CEO Walter Ricciotti. "The first, called Equity Like, includes private equity funds invested in Italian small and medium-sized enterprises, which are less closely related to the performance of the stock market". That way, Quadrivio aims to beat yield volatility through high diversification of target companies. "The second group", he continues, "is Bond Like funds. These can distribute dividends to investors on a twice-yearly basis". With the same goal in mind, Quadrivio is also channelling "10-15% of our investments" into alternative instruments like private debt and clean energy.



EQUITY
Increase in equity held by private operators from 31 December 2013 to 31 December 2014, in billions of euro.

BANCHE COMMERCIALI ITALIANE	ITALIAN COMMERCIAL BANKS
BANCHE D'AFFARI STRANIERE	FOREIGN MERCHANT BANKS
BANCHE ITALIANE SPECIALIZZATE	FINANCIAL BOUTIQUES
RETI CON STRUTTURE DI PB	NETWORKS WITH PRIVATE BANKING STRUCTURES
FAMILY OFFICE	