2ND EDITION

ADISA™

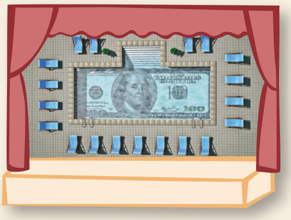
GUIDE TO ALTERNATIVE INVESTMENTS

• Income Streams

• Interval Funds

• BDCs

• Commercial Real Estate



• Private Placements

VIRGINIA B. MORRIS

LIGHTBULB PRESS®

Alternative investments? Alternative to what, actually? What we mean by alternative investments here are investments other than "traditional stocks, bonds, and cash." Even though these alternative investments have a longer history than "traditional" investments, they currently play a little brother role to the more visible stock and bond markets.

A major difference between traditional and alternative investments is that traditional investments are broadly traded and alternative investments as we treat them here are non-traded. They are generally offered directly to investors by broker-dealers and financial advisors. Let's understand this distinction between traded and non-traded, for it is key.

If you buy stock in a publicly traded company, the return on your investment depends on whether the company is profitable and also on whether other investors think the company is a good investment in the exchange marketplace. If many want to own it, the stock price will go up and you can sell at a profit. But if they find another investment more attractive and sell their shares, the stock price will drop. Thus, the performance of your investment has an exchange factor—an amplifier or dampener of sorts—in addition to the company's performance.

But when you make an alternative investment, you typically invest more directly in a company or project. Whether or not you make money on your investment depends primarily on the production of the company, not so much on an exchange marketplace where what investors think and transact in with other investors controls the value. There are advantages and disadvantages to both the traded and non-traded sectors, and we aim to explore those here.

At ADISA, the Alternative and Direct Investment Securities Association, we represent the alternative and direct investment sector, or non-traded alternatives. Along with our members, we believe that investing a portion of your portfolio in alternatives can provide needed diversity and helps protect your portfolio against market volatility. We hope you benefit from learning more about the types of products in our sector—an important alternative.

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ADISA™

GUIDE TO ALTERNATIVE INVESTMENTS

2nd Edition

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An Introduction to Alternatives

You can diversify your portfolio by selecting a wide variety of investments.

When you describe an investment or strategy as *alternative*, what you're saying is that it is an alternate to, or different in some essential ways from stocks, bonds, and cash. Most traditional investments are publicly available to any investor who has money to pay for them, and **liquid**, which means they can be bought and sold when you wish, though not always at the price you would like.

Most alternative investments are available only though broker-dealers, financial advisors, or registered investment advisors (RIAs). In many cases, you must meet net worth or income requirements to be able to invest and be willing to hold the investment for a specific period, which may be as long as ten years or more. That's why the majority of these products are described as **illiquid**.

Though they share similarities, alternative investments are not all alike. There's significant variety, just as there is among traditional investments, in the ways they generate returns and the levels of risk to which they expose you.

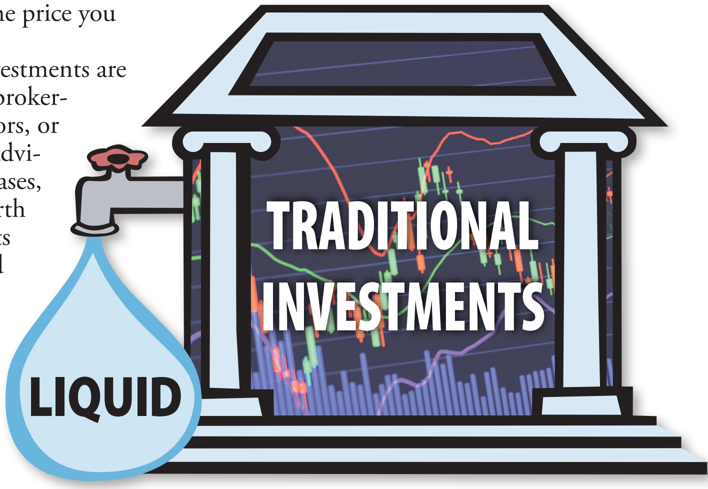
PUBLIC OR PRIVATE

Some alternative investments are **publicly offered** and others are **privately offered**.

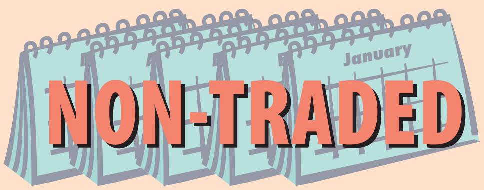
Public offerings must be registered with the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), or other relevant regulatory body, and in certain cases with the states where they are offered for sale. The sponsors must provide a prospectus or offering circular to potential investors and file regular financial reports, such as an annual audited Form 10-K with the SEC.

Private investments are exempt from registration with a federal regulator, although their advisers and managers are often subject to regulation. The financial reporting that's required varies.

All investments, public or private, are subject to federal and state anti-fraud regulations.



The relationship of an investment's return to the return of its relevant benchmark is called its **beta**. When they're similar, it's a positive correlation. When they're not, it's a low or non-correlation.



A **traded** investment is one that is listed on a public securities exchange, such as the New York Stock Exchange (NYSE) or the Nasdaq Stock Market, or trade on another market. In the case of stock, for example, trading begins following listing on an exchange. While trading in these securities may occur in many venues, your order to buy or sell one of them will be acted upon immediately in the case of a market order or as soon as the security is available at the price you specify in a stop, limit, or conditional order.

Not all traditional investments are traded. Mutual funds are sold and repurchased by the investment company that sponsors them even when you purchase them through a broker-dealer. This is also true of alternative investments known as **liquid alts**, or alternative mutual funds. **Interval funds** are hybrids. Shares are sold like mutual funds but repurchased periodically.

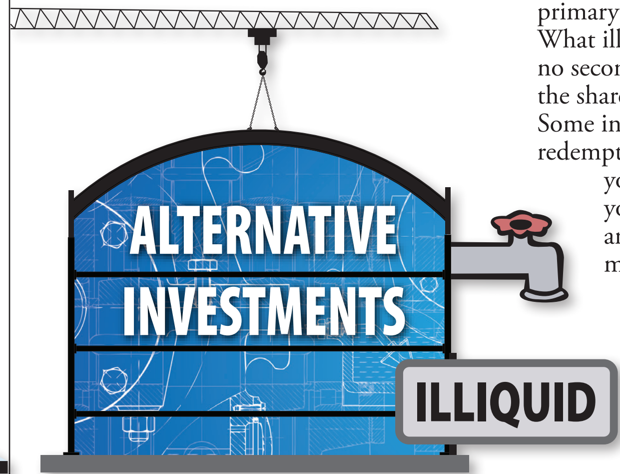
A **non-traded** investment is not listed on an exchange or sold OTC. Rather than an initial public offering (IPO), there is an offering period, sometimes rather lengthy, during which broker-dealers and financial advisors raise capital by marketing the product to eligible investors.

Some types of investments, such as REITs and BDCs, may be either traded or non-traded. The former are considered traditional investments because of the higher level of correlation in prices and returns caused by being traded on exchanges, and the latter alternative investments.

MINIMUM INVESTMENTS

Most alternative investments set minimum investment requirements, ranging from as little as $2,000 to as much as $2 million or more. Investors may be able to reinvest distributions from the investment to buy additional shares, sometimes at a discount.

With some alternative investments there's potential for appreciation at the end of a specific term, often seven to ten years though it may be longer. With others, the return is limited to cash distributions during the term.



PARTNERSHIPS

Limited partnerships are a popular American business structure. They were created in colonial times, when the British refused to issue charters for new companies. Entrepreneurs, determined to move forward, pooled their capital and credit to share operational and financial risks. Their ingenuity laid the groundwork for what became formal partnership agreements.

UNDERSTANDING ILLIQUIDITY

Lack of liquidity is often cited as a primary risk of investing in alternatives. What illiquidity means is that there's no secondary market where you can sell the shares or units you have purchased. Some investment sponsors do have redemption programs, which may give you the opportunity to sell back your shares. But these programs aren't required and those that may be offered can be suspended at any time. The sponsor may buy back only a limited number of shares at any given time, and the price they pay may be less than the actual value of the shares provided in your account statement.

On the other hand, a primary attraction of illiquid alternative investments is what's known as the illiquidity premium. That's the potential for higher return in exchange for less liquidity. In addition, historically, their returns have a modest correlation to the return on traditional investments as measured by a relevant benchmark, such as the S&P 500 index for large-company stocks.

Low correlation may result because the factors that influence an alternative investment's performance may differ from those that influence traditional investment performance. In addition, the changing dynamic of supply and demand impacts the daily price of a traded investment. But while the value of non-traded investments may fluctuate for similar reasons, there is no secondary market trading.

Sponsors of alternative investments can benefit from illiquidity too because they have an extended period to potentially turn a profit for investors and a buffer against the volatility that is often a feature of conventional markets that can lead to short-term pressures on the issuer.

Alternative Mutual Funds

Liquid alts and interval funds expand access to alternative investments.

As their name implies, alternative mutual funds aren't conventional investments.

Unlike other mutual funds, whose strategy is to purchase securities for their portfolios either to replicate the performance of a benchmark index or outperform a relevant benchmark, alternative funds may, to the extent they are legally able, not only buy securities, but sell short, buy investments other than securities, use options contracts to offset risk, or borrow to deliver higher returns to achieve their objective.

In addition, these funds may provide access to alternative assets and/or strategies at a lower cost than with other alternative products. At the same time, they attempt to limit exposure to some, though certainly not all, of the risks and expenses that sometimes characterize alternative investments.

LIQUID ALTS

As you can with other open-end mutual funds, you can buy and redeem your shares in the funds known as **liquid alts** any time at the end-of-day NAV. There are no restrictions on who can buy shares as long as you have enough money to meet the initial investment. That's typically similar to the initial cost of conventional funds.

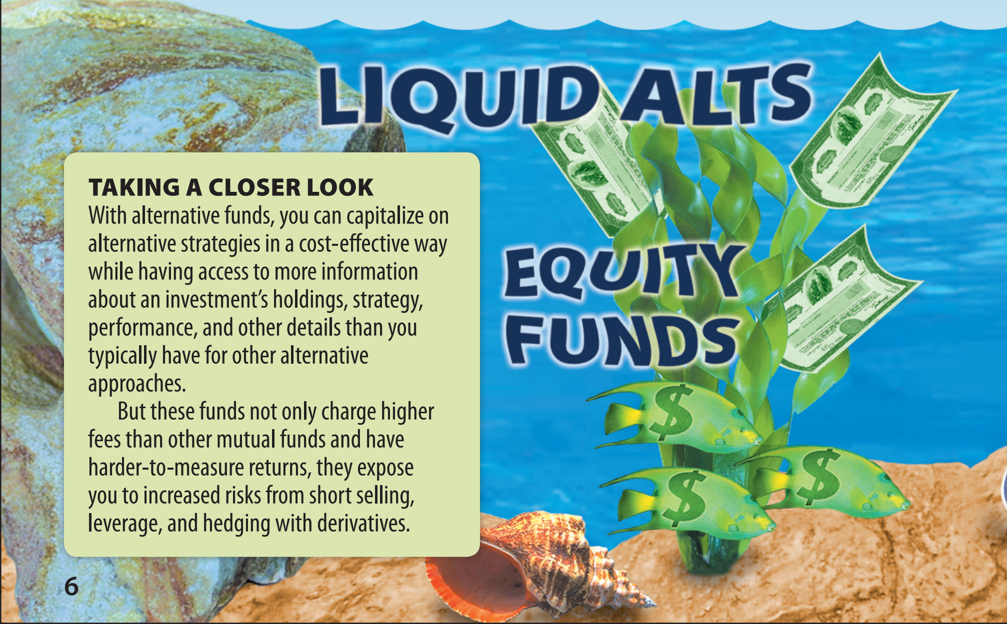
Liquid alts must also comply with SEC regulations that generally:

- Require transparency, disclosure, and daily calculation of net asset value (NAV)
- Forbid performance fees
- Limit the use of leverage
- Restrict illiquid investments to 15% of the fund's portfolio, in large part to meet potential liquidity needs

INSIDE A LIQUID ALT

Liquid alts may be bond, equity, or commodity funds, and each fund has a specific investment objective. A bond fund may strive to hedge against changing interest rates. Long/short equity funds focus on participating in rising stock prices, while market neutral equity funds seek to provide a positive return whether the market goes up or down.

Single strategy funds typically have a single manager and one investment approach. Multi-strategy funds, on the other hand, use a number of sub-advisers, each managing a portion of the overall portfolio using different investment approaches. The built-in diversification of a multi-strategy fund may be more efficient and cost-effective than selecting a number of single-strategy funds.



TAKING A CLOSER LOOK

With alternative funds, you can capitalize on alternative strategies in a cost-effective way while having access to more information about an investment's holdings, strategy, performance, and other details than you typically have for other alternative approaches.

But these funds not only charge higher fees than other mutual funds and have harder-to-measure returns, they expose you to increased risks from short selling, leverage, and hedging with derivatives.

LIQUID ALT PROS AND CONS

Liquid alts are attractive to investors because they can provide diversification, potentially higher risk-adjusted returns, and reduced volatility in an otherwise conventional portfolio. These funds may also provide some downside protection in a falling market.

Their ability to outperform is more limited than it is for the hedge funds they emulate. But they typically cost significantly less while providing access to alternative strategies.

INTERVAL FUNDS

Interval funds, like liquid alts, generally sell shares continuously at a price based on the fund's NAV and, in most cases, are open to anyone who can afford the minimum investment amount. But interval funds are illiquid, something investors must take into account before they purchase shares. There is no daily repurchase provision as with open-end funds and no secondary market as with exchange-traded funds.

Instead, liquidity is provided by periodic repurchase offers that each fund must make to buy back between 5% and 25% of investors' outstanding shares. In practice the percentage is almost always at the lower end of that range. The offers are made at set times, or intervals. These intervals are part of the fund's objectives and policies and can't easily be changed.

Because the repurchase price is based on the fund's NAV as of a particular date, the dollar amounts vary from offer to offer. In addition, if demand for liquidity is greater than the repurchase offer, the offer is handled on a pro-rata basis.

A REPURCHASE TIMELINE

In a typical repurchase, the process begins when the fund notifies investors of the date on which they must respond if they intend to accept the next repurchase offer. The notice is usually sent three to six weeks before that deadline.

After the deadline passes, the fund sets the date on which the purchase price will be determined, usually a week or two later. The repurchase price is determined by the fund's per share NAV on the chosen day. The actual repurchase occurs one week later.

But there is no guarantee that shareholders will be able to sell shares if they wish to.

INTERVAL FUND PROS AND CONS

Because withdrawals from interval funds are illiquid, fund managers tend to focus on investments and strategies they believe have the potential to provide higher yields over time. These yields are attractive to investors, especially in a low interest environment.

In fact, interval funds can have between 75% and 95% of their holdings in illiquid assets. For example, a fund may include investments in commercial real estate, business loans, or agricultural land, among others.

There is a cost associated with this potential for higher return. Interval funds can deduct a redemption fee of up to 2% of the repurchase proceeds to cover their costs in addition to management, service, and other fund costs. Commissions and redemption fees may also apply.

REITs

Commercial real estate can help diversify a traditional portfolio.

A real estate investment trust (REIT) is a company that invests in commercial real estate. The REIT raises capital from a group of investors and uses it to buy buildings if it's an equity REIT or loans on buildings if it's a mortgage REIT. Hybrid REITs typically own both properties and mortgages on properties.

A REIT's goal may be to provide a steady stream of income and potential capital gains to its shareholders. With an equity REIT, the income comes from the rent its buildings' tenants pay. A mortgage REIT generates income by collecting interest and principal payments on the loans it owns.

A REIT OVERVIEW

Most REITs are public corporations that register with the SEC, abide by its regulations, and file regularly updated quarterly and annual financial reports. A smaller number are private companies.

Some public REITs are traded, which means they're listed on a national exchange. You can buy and sell shares at any time for the current market price.

NON-TRADED REITS

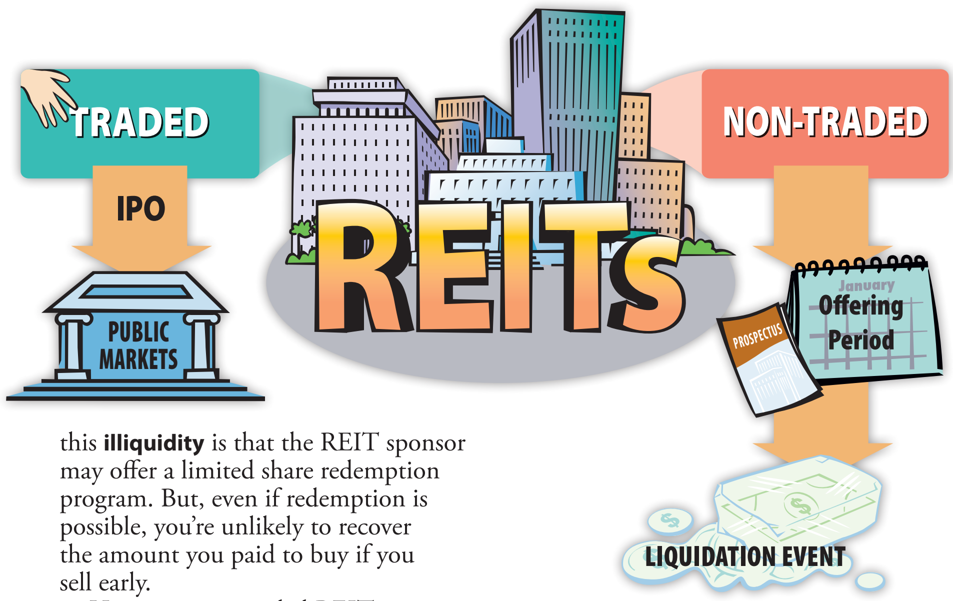
Other public REITs are non-traded. They aren't listed or sold OTC, and there's no IPO. Instead, they're offered to investors by **prospectus**, an official document that explains the REIT sponsor's investment strategy, the types of properties it will buy, and how it will finance its investments. These REITs, which are available through broker-dealers, RIAs, or financial advisors, are available during a multi-year offering period.

A distinguishing feature of non-traded REITs is that there is no formal secondary market where you can sell your shares. Since a REIT's investment term is typically at least 5 years and may be longer, you must be able to commit the capital you're investing for that period. The only significant exception to this **illiquidity** is that the REIT sponsor may offer a limited share redemption program. But, even if redemption is possible, you're unlikely to recover the amount you paid to buy if you sell early.

However, non-traded REIT returns tend to be non-correlated with returns on conventional investments and so help to diversify your portfolio.

INVESTMENT FOCUS

Most equity REITs, the most common type of REIT, specialize in a particular type of real estate, such as hotels, shopping centers, self-storage centers, office buildings, or medical facilities, and they may concentrate their purchases in a specific geographic area.



REIT RETURNS AND RISKS

One significant feature of the REIT structure is that it must distribute at least 90% of its taxable income to shareholders every year as monthly or quarterly distributions. As a result, investment income from a REIT may be higher than most other corporations provide. But, of course, this income isn't guaranteed.

Equity REIT distributions depend on having a full complement of paying tenants, and operating efficiently. There are risks, however. Rents, and therefore distributions, may drop in a market downturn if rental space remains empty. Distributions may also be disappointing if the properties the REIT owns aren't attractive to potential tenants or if the market for a particular type of property is saturated.

It's also possible in newer programs that distributions may be funded in part or whole by investor capital or borrowing rather than from income generated by the real estate. Some REITs even allow borrowing in excess of 100% of assets. Using borrowed funds to pay distributions can place the REIT at greater risk of default and devaluation, which can result in investment losses when shares are redeemed or liquidated as well as a reduction in, or suspension of, distributions.

Income is only part of the total picture however. With a non-traded REIT, whether or not there's a shareholder capital gain depends on the **liquidation event** that occurs at the end of the multi-year investment term.

The preferred exit strategy, which would produce the greatest gain, may or may not be feasible at the time REITs are ready to liquidate. Among the factors that come into play are the current market interest in traded REITs, the marketability of the properties the non-traded REIT owns, and the general state of the economy.

BEFORE YOU INVEST

Because non-traded REITs are illiquid, FINRA requires firms that sell them to disclose key features, including their non-listed status, lack of a secondary market, front-end fees, and anticipated source of return. Once the offering is available, they must also provide per-share estimated values using one of two methodologies:

- **Net investment methodology**, which reflects the deduction for sales commissions, manager fees, and any other expenses. In addition, if any distributions reflect a return of capital, the disclosure must say so and explain that this reduces the estimated share value.
- **Appraised value methodology**, which requires that the reported per-share estimated value be based on the assets and liabilities of the REIT as determined or confirmed by a third-party valuation expert following standard industry practice

They must also clarify that, if redemptions are allowed, the share redemption price may be less than the per-share estimated value provided in your account statement.

TAX ISSUES

The tax you owe on REIT distribution income is taxed at the same rate as your ordinary income, not at the lower long-term capital gains rate that applies to qualified dividends. But you should consult your tax advisor about claiming **depreciation** of real estate assets against REIT income or other tax-saving opportunities. Or, you may hold the REIT in a tax-deferred account, so that tax rates are not an issue until you take withdrawals from the account.

Business Development Companies (BDCs)

These companies focus on providing investment capital to small- or mid-cap firms.

A BDC is a closed-end investment company that pools the money it raises from investors to purchase the debt or equity of qualifying thinly traded or privately held companies. This approach is attractive for small or mid-sized firms, which would otherwise have limited access to capital, and it offers individual investors access to a potentially lucrative market in which they otherwise would be unable to participate.

BDCs generally are public companies that are registered with the SEC and subject to the regulations that govern investment companies. There are two types: traded BDCs, which are listed on a national exchange and non-traded BDCs.

The upfront fees associated with non-traded BDCs average approximately 11.5% to 15% of the purchase price. They cover commissions, management fees, and offering costs. In addition, annual asset-based management fees may apply during the BDC's term.

THE CASE FOR BDCs

Non-traded BDCs have several features that make them attractive to investors.

BDCs must distribute at least 90% of their taxable income to shareholders each year to avoid federal corporate income taxes. And they typically distribute all of it, which allows them to avoid excise taxes. This has the potential to be a substantial annual amount, though, of course, there is no guarantee it will be.

In addition, the returns on a non-traded BDC are typically non-correlated with returns on traditional investments because they're not subject to the same market pressures. So they can provide valuable diversification that may help to reduce portfolio risk. That diversification can be enhanced, at least to some extent, by investing in several differently focused non-traded BDCs simultaneously.

ASSESSING THE RISKS

Non-traded BDCs expose investors to potential risks. Chief among them is **illiquidity**. There is no secondary market for non-listed BDC shares. Even if the BDC offers a redemption program, it is likely to limit share buybacks and pay a discounted price for those it repurchases.

Potential defaults or limited growth of portfolio companies are also risks. The BDC may not be able to meet its obligations to lenders or investors if its cash flow drops, its investments lose value, or both.

Further, a BDC's offering price must be at least equal to its net asset value (NAV), excluding commissions and discounts. This means investors may find that the value of their shares is diluted if the NAV falls after purchase.

There's also the possibility that the BDC's exit strategy will result in a disappointing profit, or none at all, either because the managers have misjudged the market, its portfolio is un-attractive, or the economy is weak. This is a serious issue since total return depends on the combination of income and capital gains.

ALTERNATIVE INVESTMENTS

Regulation A

Some companies can raise money from the public without SEC registration.

Regulation A (Reg A) of the Securities Act of 1933 allows start-ups and other small companies to sell equity securities to investors with fewer disclosures than are required of companies that must register with the SEC. It also gives more investors the opportunity to participate in an equity market to which they otherwise don't have easy access.

Amendments to the Act, adopted in 2015, created what is sometimes described as **Regulation A+**. The update expanded the Act's original provisions to facilitate capital creation in keeping with the requirements of Title IV of the JOBS Act.

The goal is to make it easier and more cost effective for these companies to raise the capital they need to grow and expand while expanding investment opportunities for individual, non-accredited investors. There are no restrictions on the resale of shares, though they may be illiquid for an indefinite period if the company doesn't list on a national exchange.

Of course, there's also no guarantee that the issuing companies will be profitable.

PROVIDING INFORMATION

Before a company seeking to raise capital under Reg A can move ahead, it must provide an **offering circular** that has been qualified by the SEC staff.

The document describes the securities being offered, the investment's risks, and the way the company intends to use the capital. The circular must also describe the business plan, identify the management, provide financial statements, and disclose whether any of the shares that are being sold are offered by an existing shareholder rather than by the company.

CHOOSING A TIER

Under Reg A, a company must choose one of two structures, **Tier 1** or **Tier 2**, to make its offering and indicate which it's using on the cover of its offering circular.

Under Tier 1, a company can raise up to $20 million in any 12-month period.

Under Tier 2, a company can raise up to $50 million in any 12-month period.

There are other differences between the Tiers.

Tier 2 securities may be listed on a national exchange if they meet the requirements. Tier 1 securities are not listed.

Under Tier 1, there are no limitations on who can invest or how much can be invested. Under Tier 2, however, if you're not a accredited investor and the securities are not going to be listed, you can invest no more than 10% of your individual or joint income or net worth, excluding the value of your primary home.

Tier 1 offering circulars must be qualified by state securities regulators in states where the company plans to sell shares as well as by the SEC. The state requirement doesn't apply to Tier 2, where shares are considered covered securities.

Tier 1 companies don't have to disclose any information after the offering except a final, or exit, report on the offering's status. Tier 2 companies must provide detailed annual and semi-annual reports that cover its financial results and other information as well as a current report when there is any material change in the company's status.

Tier 2 financial statements must be audited by an independent accountant, but Tier 1 statements may be unaudited.

ALTERNATIVE INVESTMENTS

A Range of Alternatives

Investors seeking greater portfolio diversification are increasingly moving into alternative investment programs.

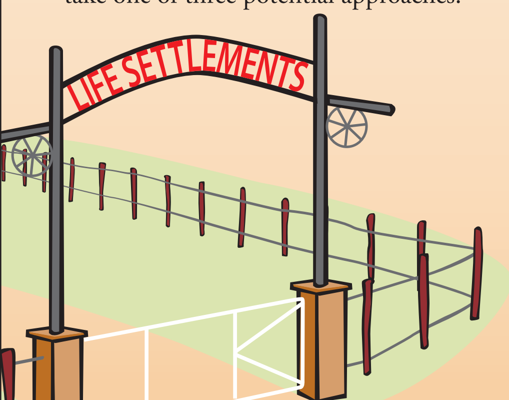
One feature that makes investments described as alternative different from those considered traditional is—in most cases—the degree to which an investor is directly exposed to the success or failure of a specific undertaking.

LIKE-KIND EXCHANGES

In a like-kind exchange (LKE), also known as a 1031 exchange, an investor or business owner sells business or investment real estate and replaces it with different real estate of equal or greater value. If the replacement property is identified within 45 days, the exchange is completed within 180 days, taxes on up to 100% of any capital gain on the original sale are deferred until the replacement property is sold.

The definition of like-kind is flexible, so that most real estate is like-kind to other real estate, regardless of quality or grade. The one constraint is that both properties must be within US borders. However, the rules that govern the LKE process are strict, including a requirement that no cash is available for other uses. To ensure that all rules are followed and to prevent errors that result either in an unexpected tax liability or an invalidation of the exchange, business owners must hire a **qualified intermediary (QI)**, also known as an accommodator or a facilitator, to handle all the LKE details. In fact, an intermediary must be on board throughout the process, before any part of the exchange occurs.

Business owners who want to replace commercial property with property that is better suited to their objectives while taking advantage of a LKE exchange can take one of three potential approaches: an individual transaction, through a tenants-in-common (TIC) interest that is not structured as a partnership, or by investing in a Delaware Statutory Trust (DST).



LKEs are popular because they make business growth possible by making money that would otherwise go to paying taxes available to reinvest, stimulate the economy, and create jobs. However, there's no guarantee that the owner or investor will come out ahead financially, either immediately or in the long run.

Not only do all real estate investments have the potential to lose value during the life of the investment. The income stream and deprecation schedule may affect the property owner's income bracket, tax status, or both. And an unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities, including tax penalties.

ENERGY INVESTMENTS

Alternative energy programs raise money to invest directly in exploring and drilling for oil or natural gas. The program buys or leases land under which its sponsor or management team believes hydrocarbons can be extracted profitably. It also secures the necessary permits and installs the equipment required to drill wells, pumps the oil or gas to the surface, and arranges for its transportation to storage and refining facilities. If the venture is successful, the program provides income over the productive life of the well or wells. If it's not, for whatever reason, the program yields a loss.

Energy programs are generally structured as **limited partnerships**, with one or more **general partners** and a number of **limited partners**. The general partner is responsible for running the project and is liable for its potential losses. The limited partners provide investment capital, which they could lose, but have no control over the decisions the partnership makes and no responsibility for any debts it may incur.

Partners in an energy program may enjoy a number of tax benefits,

including deductions for intangible drilling costs (IDC), a depreciation allowance for the tangible drilling costs, and a depletion allowance. All these can reduce taxable investment income. However, while general partners may take these deductions and allowances against ordinary income, limited partners may take them only against passive income. And the rules are complicated, so claiming these benefits requires the advice of a tax professional.

While there may be significant profits from successful energy programs, there are also significant risks. These include, among others, production risks, operational costs, fluctuations in market price, and the consequences of potential spills or other adverse affects on the environment.

LIFE SETTLEMENTS

In a **life settlement**, the owner of a life insurance policy sells it for more than the cash settlement value he or she would receive for surrendering the policy but less than the face value that the beneficiary would receive at the insured's death. The policy owner and the insured may or may not be the same person.

The third-party purchaser is typically a company known as a life settlement originator or provider. The firm works with life settlement brokers to identify policies to buy and sells either individual policies or interests in its portfolios of policies to investors. Some but not all originators are licensed or regulated by the state where they operate.

Investors make a cash payment and pay their share of the ongoing premiums that keep the underlying policies in force and the administrative costs of keeping track of the insured person's condition, obtaining death certificates, and valuing the policies.

The investment return on a life settlement is a pro-rated share of the death benefits when the insured parties die. The risk is that more time will pass before the deaths occur than investors were led to expect. This increases the amount that must be paid in premiums but not the death benefit. There's also a risk the insurance company that issued the policy will refuse to pay the death benefit or that the insured's heirs will challenge the sale.

EQUIPMENT LEASING

Equipment leasing programs offer businesses an alternative to purchasing hard assets that may be extremely expensive, likely to become obsolete quickly, or both. The programs raise capital to purchase the equipment from investors who expect to receive a steady stream of income as a pass-through from the payments the lessees, or equipment users, make.

In addition to regular income, participating in leasing programs may be attractive for the potential tax benefits, and as a hedge against both inflation and recession.

There are risks, however, that may reduce cash flow or put capital at risk. And, in the absence of a secondary market, an investment in a leasing program is generally illiquid.

QUALIFIED OPPORTUNITY ZONES

Opportunity zones are designed to promote economic development and job growth in distressed areas by providing tax incentives to promote long-term investment.

Specifically, if you reinvest capital gains realized on any investments in these zones through a qualified opportunity fund (QOF) you can defer taxes on those gains until 2026.

Several risk factors may impact a qualified opportunity zone investment, including little precedence and limited guidance for them. While there may be substantial tax benefits if certain tax requirements are met, these requirements include but are not limited to adhering to the defined timeline, holding the interest for minimum lengths of time, and payment of taxes on the remaining originally deferred gains.

Further, investments in real estate are subject to their own risks, including, among other things, local conditions such as an oversupply of space or reduced demand for properties, an inability to collect rent, vacancies, inflation and other increases in costs, adverse changes in laws and regulations applicable to owners of real estate, and changing market demographics.

Private Placements

Some investment opportunities are offered privately to a group of investors.

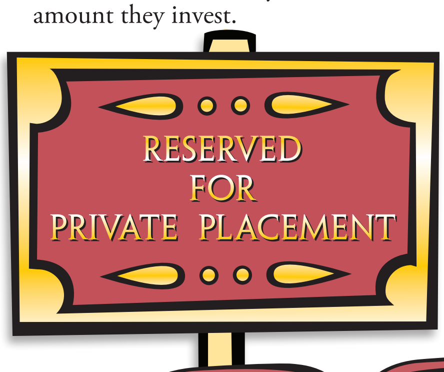
A security described as private is one that qualifies to be exempt from registering with the SEC. It does not have to provide prospectuses or other detailed offering information to investors in most cases or file regular financial reports. The exemption is usually based on the amount of money the sponsors will raise, the financial standing of the investors who will be offered the opportunity to participate, or both.

While private placements are exempt from federal regulatory oversight, they must comply with the federal anti-fraud provisions of the Securities Exchange Act of 1934.

GETTING ORGANIZED

Many private investments are organized as limited partnerships, or limited liability companies (LLCs). While these partnerships are exempt from SEC registration, they may be regulated as securities by their home states.

In a limited partnership there is always a general partner—or partners—and one or more limited partners. The general partner actively operates the business and is responsible for its actions and debts. Limited partners, on the other hand, are passive participants whose only job is providing the capital that the partnership needs to run its business. The most they can lose is the amount they invest.



PRIVATE ENERGY INVESTMENTS

Private energy programs, like all private placements, are exempt from SEC registration, though the SEC may require that potential investors be accredited. In some cases, however, up to 35 non-accredited investors may participate. With some but not all offerings, the program sponsor may have to provide non-accredited investors with a prospectus, financial statements, and other information.

Some energy partnerships, private as well as registered, offer an interest conversion feature that allows investors who join the partnership as general partners for tax reasons to switch to limited partnership status after the drilling phase of the program ends. This arrangement exists because general partners are entitled to use intangible drilling costs (IDCs) incurred during drilling to offset active income, including wages and other earnings. Limited partners can use IDC deductions to reduce only passive income.

However, investors should realize that while acting as a general partner, even for a limited time, they have unlimited liability for partnership debts and other obligations.

RELP IS ON THE WAY

Real estate limited partnerships (RELPs) are organized to develop and manage commercial real estate projects. While

some are public, others are privately placed. As with other limited partnerships, there is a general partner and a number of limited partners.

RELPs own and manage income-producing properties or, less frequently, own mortgages on properties. Generally the specific properties haven't been identified at the time the sponsor sells partnership interests, which makes it difficult to assess what the quality of the RELP portfolio will be and whether the acquisition costs turn out to be reasonable. Other factors that influence whether or not a RELP is a good investment are how much debt the program takes on, the upfront and ongoing fees, and the experience and skill of the managers.

Limited partners may or may not receive distributions of project income, at the discretion of the general partner. But returns can be substantial. In addition, partners can deduct depreciation allowances and other expenses against the income they receive, and they may be eligible for tax credits if the project rehabilitates properties that it owns. The general partner can also pass through losses, which can be used to offset gains. But claiming these benefits can be complex and requires the advice of a tax expert. Total return is determined only when all the properties have been liquidated.

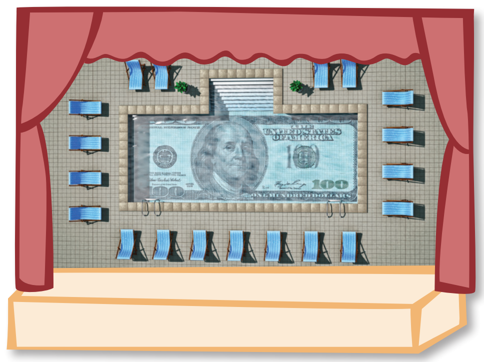
As is the case with other alternative investments, there are upfront fees and commissions. With RELPs they may be as high as 20% to 25% of the amount invested plus ongoing costs during the term. In addition, there is no organized secondary market so RELPs are illiquid.

EXEMPTION STANDARDS

Two regulations of the Securities Act of 1933, Reg A and Reg D, account for the vast majority of exempt investments. Reg D exemptions are more common, and most of them are granted under Rule 506 of the regulation.

Rule 506 allows issuers to raise an unlimited amount of capital. Section (c) of the rule allows issuers to advertise, but sales may be made only to accredited investors.

Reg A exemptions apply to small offerings. There are two tiers. Tier 1 permits a company to raise up to $20 million in any 12-month period. Tier 2 permits raising up to $50 million in a similar period. Among other differences, disclosures required for Tier 1 offerings are more limited than those required for offerings under Tier 2.



PRIVATE EQUITY

Private equity is an umbrella term for firms that raise capital to invest in business ventures. These pooled investment funds are typically organized as limited partnerships, or LLCs, with the owners of the firm as general partners and the investors as limited partners.

Some firms specialize in venture capital, or investing in new or small companies they believe will be successful and yield a significant profit. Others are buyout firms. They focus on buying existing public or private companies, restructuring them, and either selling them to other private investors or taking them public.

To participate in a private equity offering, investors must usually be accredited, though there are exceptions. Minimum investments are substantial, typically much higher than other alternative investments with the exception of hedge funds. Fees average 1% to 2% of assets as an annual management fee plus a percentage of profits, often 20% or more.

Like other alternatives, private equity investments are illiquid typically until the investment term ends, often eight to ten years after inception. But while there's no guarantee, eventual returns can be significant, especially with firms that have established a strong reputation for success.

Alternative Appeal

The growing popularity of alternative investments is a testament to their attractive features.

Investors who add alternatives to their portfolios want to:

- Diversify their portfolios
- Increase their income and total return
- Manage their income tax liability
- Hedge against inflation, recession, or both
- Capitalize on access to a broader range of assets than were previously available
- Benefit from consistent returns

No single investment is appropriate for achieving all these objectives. And some alternatives are better suited for meeting specific goals than others. But as a group, non-traditional investments offer benefits with the potential to strengthen the performance of an otherwise conventional portfolio.

DIVERSIFICATION TOPS THE LIST

The benefits of diversification—its potential to reduce portfolio risk and increase investment return—position it as a primary strategy for the majority of savvy investors, especially those choosing alternative products. Its primary limitation is the temptation to expect too much. As important as diversification is, it doesn't guarantee a positive return or prevent losses in a falling market.

The particular benefits that alternative investments add to a portfolio stem from returns that are less or non-correlated with the returns on traditional investments and—curious as it may seem—their illiquidity. Of course, these are in addition to the classic benefit of diversification: By owning a variety of investments that respond differently to changing market conditions, investors position themselves to reap the rewards of whatever asset class or subclass is performing well while also having a stake in whatever class or classes will gain strength as the market moves into the next phase of its cycle of ups and downs.

What non-correlation adds to the mix is that alternative investment performance is driven by different factors than the ones that impact publicly traded products. For example, while alternative investment performance is not totally divorced from factors such as rising interest rates or falling employment rates, their impact tends to be more muted than for stocks or bonds.

Nor is performance vulnerable to changing investor sentiment. Rather, it's impacted primarily by the quality of a program's underlying investments and the effectiveness of its management team.

Illiquidity, of course, has drawbacks, but also a potential benefit. Unlike publicly traded corporations whose management is always under pressure to enhance short-term return, managers of non-traded investments have an extended period to achieve their goals.

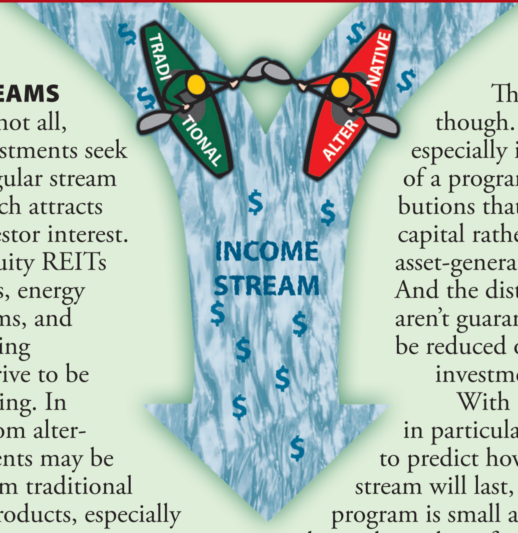
TAX REDUCTION TOOLS

It's relevant to note that distributions from alternative investments are taxed, in most cases, at the same rate as the investor's ordinary income rather than at the lower rate that applies to qualified dividends.

On the other hand, many alternative may offer some form of tax relief, especially early in the program, through a variety of allowances and deductions for, among other things, depreciation and depletion. The rules for claiming these benefits can be complicated and differ from product to product, so the advice of a tax professional is essential.

Capital gains, which are possible with some alternative products, and may be offset by capital losses, do qualify for the lower, long-term capital gains tax rate.

WELCOME INCOME STREAMS



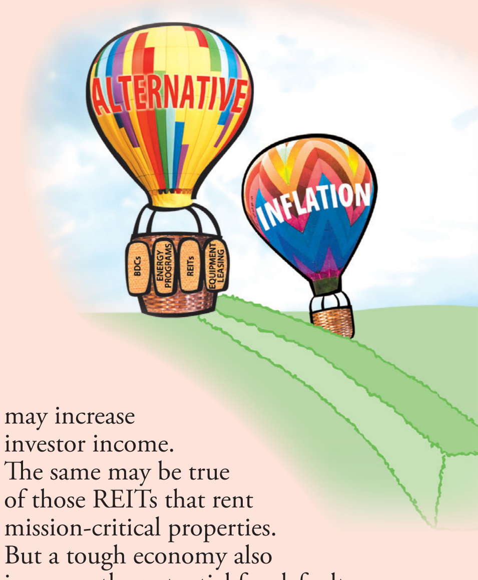
Many, though not all, alternative investments seek to provide a regular stream of income, which attracts substantial investor interest. Non-traded equity REITs and debt BDCs, energy drilling programs, and equipment leasing programs all strive to be income producing. In fact, income from alternative investments may be higher than from traditional fixed income products, especially in a low interest rate environment.

There can be issues, though. Some alternatives, especially in the early years of a program, pay distributions that derive from capital rather than from asset-generated income. And the distributions aren't guaranteed and could be reduced or end if the investment fails.

With energy programs in particular, there is no way to predict how long an income stream will last, especially if the program is small and operates a limited number of wells.

BUILDING A HEDGE

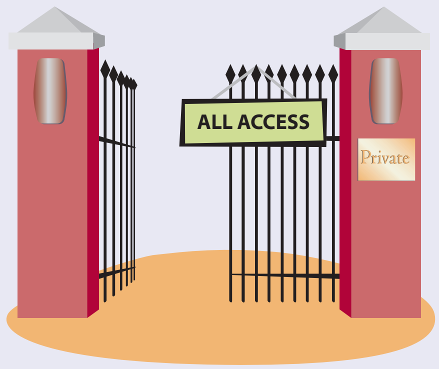
Another benefit some alternative investments provide is a hedge against inflation or recession—or, in the case of equipment leasing, perhaps both.



Real return, or the percentage gain investors realize after the inflation rate is subtracted from reported return, is vulnerable to rising inflation rates. But if a REIT increases the rent it charges its tenants, or a equipment leasing company increases its fees in the new contracts it signs, and the company distributes those increases to shareholders, the impact of inflation can be offset.

Conversely, in a recessionary period, companies still need equipment to operate and may be even less inclined to purchase outright than they are when the economy is healthy. This works in a leasing company's favor and may increase investor income.

The same may be true of those REITs that rent mission-critical properties. But a tough economy also increases the potential for default.



INCREASED OPPORTUNITIES

One benefit of alternatives that may be overlooked as they gain widespread acceptance is that these pooled investment structures provide investment opportunities that were until recently available only to ultra-high net worth individuals and institutions.

The access to commercial real estate provided through non-traded REITs and non-traded BDCs are perhaps the clearest examples of the democratization of the capital markets. But they aren't the only ones. The same is true of equipment leasing, energy exploration, and other ventures exempt from registration with the SEC but open to non-accredited investors. When these investors participate, however, the sponsor must provide offering information and financial statements.

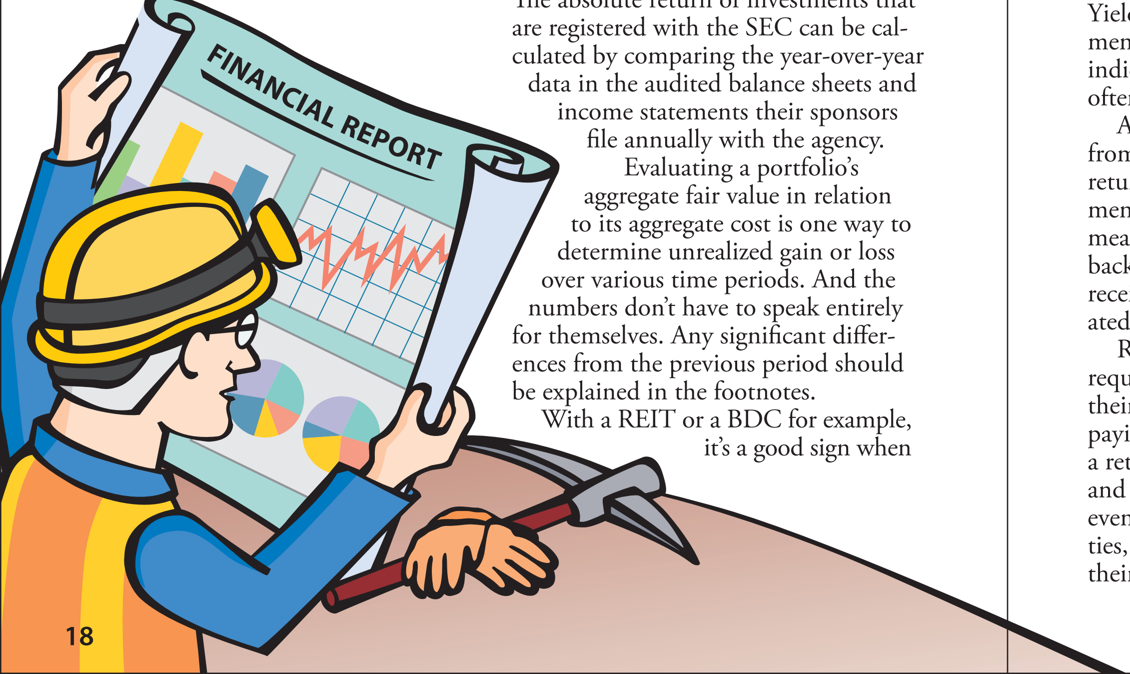
Measuring and Monitoring

Keeping track of performance is a key component of successful investing.

A relevant question investors must ask as they evaluate investment performance is whether the assets in their portfolios are meeting the objective for which they were purchased. The objective may have been increasing diversification, producing current income, or enhancing long-term return.

Unlike traditional investments whose performance can be tracked every trading day, investors are often uncertain if an illiquid investment is living up to expectations. In the most transparent cases, alternative strategy mutual funds and interval funds calculate a NAV daily based on the market value of and fair values assigned to their assets. Non-traded REITS and BDCs provide NAVs either daily or quarterly, and non-traded REITs are valued independently. Other alternatives are valued on a per-share basis rarely if at all, and the valuation strategies vary widely.

Total return—the sum of distributions and any change, positive or negative, in investment value—can be determined readily for traditional investments even though the gain or loss may remain unrealized. But for alternatives that involve a liquidity event, total return can be calculated only when the investment term ends. So performance can be evaluated only in retrospect.



DEFINING RETURN

A complicating factor for investors accustomed to evaluating relative return, or how an investment performs in relation to a benchmark, is that there aren't appropriate benchmark indexes against which to measure alternative investment performance. And since one of the primary advantages of alternatives is that they're non-correlated with the performance of publicly traded investments, the benchmarks that are relevant for traded securities aren't relevant for non-traded alternatives.

For example, the NCREIF Property Index, published by The National Council of Real Estate Investment Fiduciaries, tracks the quarterly rate of return on a sample of investment grade commercial properties. It's sometimes used to measure non-traded REIT return, but impressions can be misleading because the index doesn't account for fees or leverage, both of which have a major impact on performance.

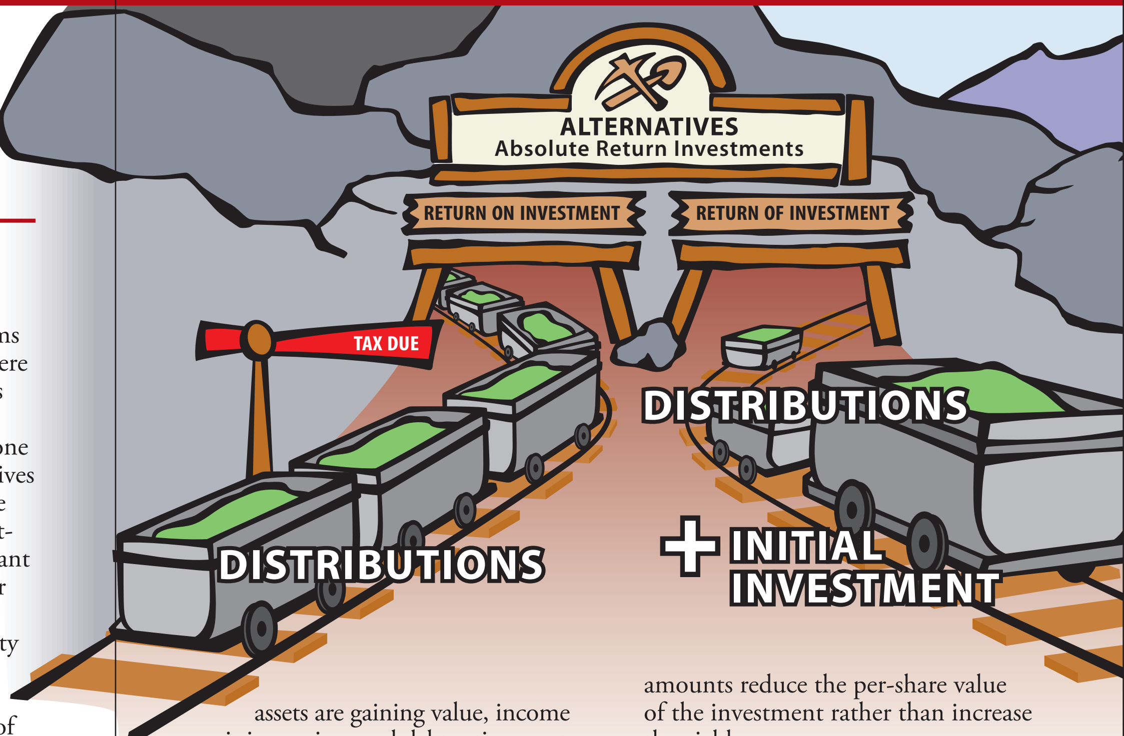
This helps to explain why alternatives are often described as absolute return investments. This means that gain or loss in value is measured in relation to the investment's previous value, not to the performance of a benchmark or a comparable investment.

MINING FINANCIAL REPORTS

The absolute return of investments that are registered with the SEC can be calculated by comparing the year-over-year data in the audited balance sheets and income statements their sponsors file annually with the agency.

Evaluating a portfolio's aggregate fair value in relation to its aggregate cost is one way to determine unrealized gain or loss over various time periods. And the numbers don't have to speak entirely for themselves. Any significant differences from the previous period should be explained in the footnotes.

With a REIT or a BDC for example, it's a good sign when



assets are gaining value, income is increasing, and debt ratios are stable. The opposite is true when income is flat or falling and debt ratios are increasing. The state of the economy may be a contributing factor, of course, but it's also relevant that the investment and management decisions made by a program's administrators have a major impact on its performance, as do the fees investors pay.

Many private placements, however, aren't required to report on their operations or finances, making measuring and monitoring performance difficult if not impossible.

INCOME VARIETY

Yield is another way to measure investment performance, and it's a relevant indicator for alternatives, which are often described as income investments.

A complicating factor is that income from an alternative investment may be return of investment, return on investment, or some of both. The former means investors are getting their capital back, and the latter means they are receiving profits their capital has generated.

REITs and BDCs, for example, are required to distribute at least 90% of their taxable income each year to avoid paying corporate income tax. This is a return on investment. Some BDCs and REITs distribute return of capital even when they have profitable properties, not only when they are young or if their portfolios are not profitable. These amounts reduce the per-share value of the investment rather than increase the yield.

Equipment leasing and energy programs have more flexibility in making distributions. In some but not all leasing programs, for example, there may be a revenue sharing arrangement structure so that during the active operation of the business, the manager takes 1% of the cash distribution and 99% is passed on to the investors. Once an investor has received the equivalent of 100% of his or her investment, plus an 8% return on investment, then the manager takes 10% and the remaining 90% is distributed to investors.

Return **of** investment is generally not taxable. Return **on** investment is usually taxable, though investors may be able to offset the income with depreciation and other allowances when they file their tax returns.

THINKING AHEAD

The challenges of assessing performance during the term of an alternative investment illustrates why pre-purchase due diligence is critical. While the past performance of a sponsor or management team can't guarantee future results, it may be a key component in selecting among alternatives with the same focus.

It may also be smart for investors to put money into several alternatives of the same type, such as REITs or BDCs, rather than into just one. Then, if one provides disappointing distributions or a negative total return, others may live up to expectations.

Accreditation

Alternative investments require thoughtful consideration.

An investment portfolio of traditional investments may provide satisfactory investment returns. But allocating a percentage of the portfolio to alternative investments may provide the opportunity for greater diversification, more current income, and the possibility of substantial capital gains. That's the premise underlying the increased attention to alternatives over the past decade or two.

However, investing in alternatives isn't as straightforward as buying a stock or a bond, a mutual fund, or even an equity option. So the sponsors who offer these investments and the broker-dealers and financial advisors who market them are responsible for making sure that investors understand the risks as well as the potential return of committing their capital. Broker-dealers and advisors are also required to determine whether an investment they may recommend is in the best interest for a particular client and to disclose any potential conflicts of interest.

THE ROLE OF INTERMEDIARIES

As a first step, there must be a thorough evaluation of the offering or program using the materials the sponsor makes available and what can be discovered through independent assessment, often by engaging the services of a third-party expert. This process, known as due diligence, involves reviewing the prospectus, offering circular, or private placement memorandum, and other public materials when they're available, researching the investment's sponsor and the management team, and, in some cases, conducting on-site inspections and interviews.

The broker-dealer's responsibility—as laid out in FINRA Rule 2111—is having reasonable assurance that an investment deemed suitable in its own right is appropriate for a specific investor based on a number of factors including the investor's age, other portfolio holdings, risk tolerance, financial situation, and liquidity needs. Furthermore, a broker-dealer must also consider whether the investment is in the individual's best interest, the individual understands illiquidity, how fees affect return, the potential tax consequences of making the investment, and disclose any conflicts of interest in the sale and management of the investment.

Fiduciary, on the other hand, means that a Registered Investment Adviser (RIA) and its representatives have a fundamental obligation to provide every client with advice that is in that client's best interest. Fiduciaries are required to explain any risks an investment carries and any potential conflicts of interest. They must also ensure that the client understands what those risks and conflicts are.

Under state regulations, special suitability rules requiring that the broker-dealer or financial advisor know the investor personally may apply to certain private placements. And in some cases, investors may be required to seek advice from a knowledgeable person who can evaluate the investment independently.

The bottom line is than an investment that's perfectly suitable for one client may not necessarily be suitable for another.

Of course, investors bear some responsibility for assessing the wisdom of adding particular securities to their portfolios. This is especially true in the area of potential liquidity needs, which may be difficult for an outside observer to judge.

THE SPONSOR'S ROLE

An investment's sponsor who sells interests in an alternative or employs people who do is responsible for making a reasonable effort to determine whether an investment is suitable for prospective investors and that they understand the risks and benefits that are involved. In addition, the sponsor must confirm in the final prospectus their responsibility to assess suitability. They must also retain records of the information they use to make a suitability determination for a minimum of six years.

Investors may be required to sign a subscription agreement to acknowledge that they have read the prospectus and understand the degree of an investment's illiquidity. However, they will not be asked to sign anything that holds them to a subjective statement, such as whether or not they believe the investment is suitable for them.

PRIVATE PLACEMENTS

Although the issuer of a security that's exempt from registration and available only to accredited investors doesn't have to provide a prospectus or audited financial reports, the FINRA suitability rule applies when broker-dealers recommend the placement to an existing or potential customer—provided the customer acts on the recommendation and buys the security through the broker-dealer.

FINRA recognizes, though, that customers may not share all relevant information with a broker-dealer, limiting his or her ability to come to an accurate conclusion. So the regulator generally requires reasonable diligence as the basis for determining suitability, provided no obvious red flags are overlooked.

OTHER PROTECTIONS

The SEC and State Regulators set certain standards that individuals must meet to invest in alternative investments that don't apply when they buy traditional securities.

To invest in a private equity partnership or a hedge fund, investors must be **accredited**. The SEC defines accreditation as having a net worth of at least $1 million excluding the value of the investor's primary residence or an annual income in the most recent two years of $200,000 for singles or $300,000 for married couples.

To participate in certain private placements, investors must be considered **sophisticated**, which means they have enough knowledge and experience in financial matters to be able to evaluate the merits and risks of an investment. And to invest in large hedge funds, investors must be **qualified purchasers**, with an investment portfolio worth $5 million not including fine art, real estate, or personal property.

NASAA's Statement of Policy Regarding Real Estate Investment Trusts, which provides guidelines for the qualification and registration of REITs, states that shareholders in REITs shall have a minimum net worth of $250,000 or an annual income of $70,000 plus a minimum net worth of S70,000. The organization has proposed increasing those amounts.

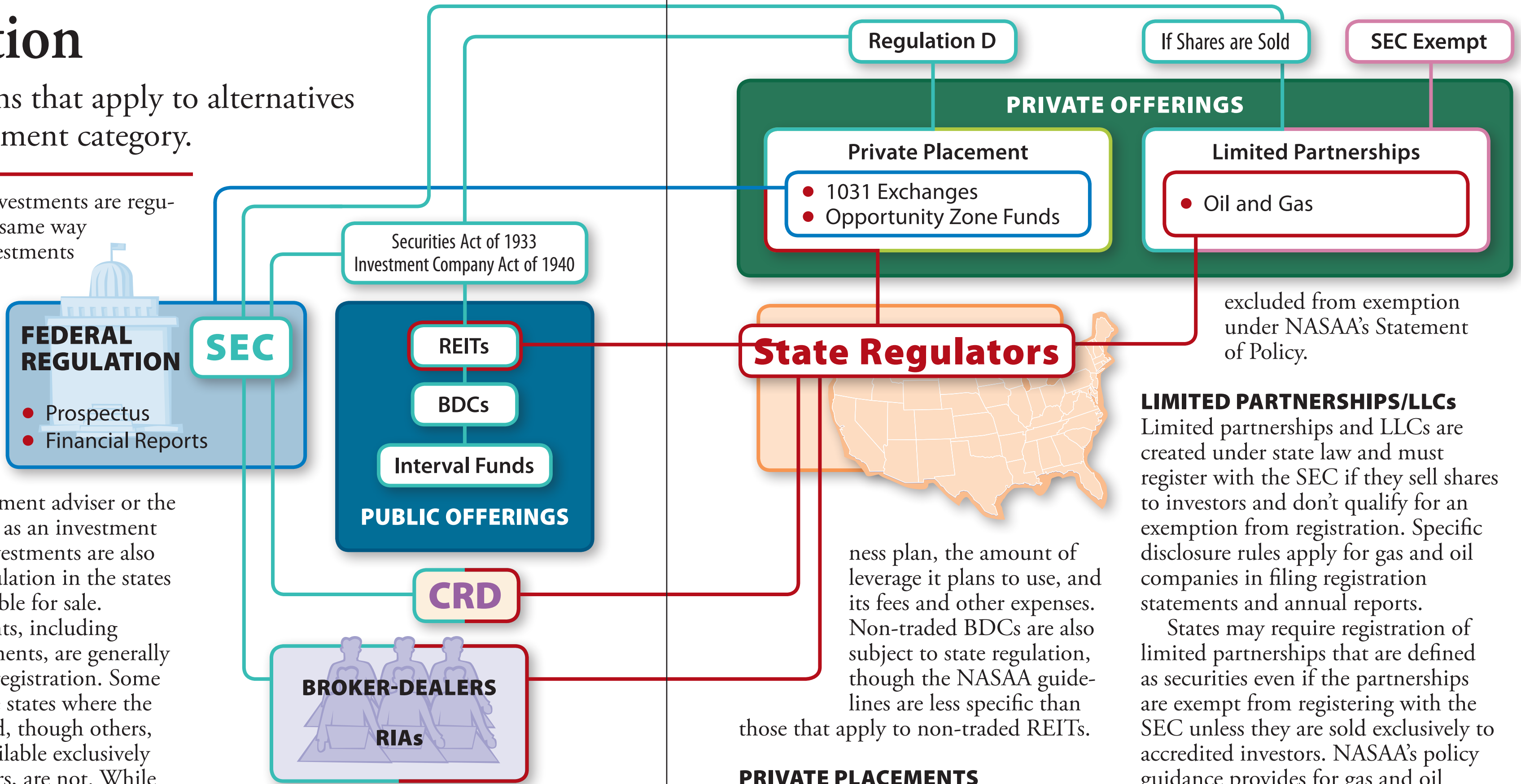
Some state regulators require that investors commit no more than a specific percentage of their portfolios to alternative investments, although those standards vary.

SEC AND NASAA STANDARDS

	Net Worth at Least:	Annual Income at Least:
Accredited	$1 Million	$200,000 Single $300,000 Married
Qualified Purchaser	Investment Portfolio of $5 Million	
Non-Traded REITs	$250,000 or $70,000	$70,000

Regulation

The regulations that apply to alternatives vary by investment category.



Some alternative investments are regulated in exactly the same way that traditional investments are. At the federal level, this means the securities must be registered with the Securities and Exchange Commission (SEC). Sometimes the adviser must register as an investment adviser or the entity must register as an investment company. Some investments are also subject to state regulation in the states where they're available for sale.

Other investments, including most private placements, are generally exempt from SEC registration. Some are regulated by the states where the investments are sold, though others, including those available exclusively to qualified investors, are not. While each state has its own regulator, and its own rules, many collaborate on a number of important issues as members of the North American Securities Administrators Association (NASAA).

Broker-dealers are regulated as well at both the federal and state levels. They must register with the Financial Industry Regulatory Authority (FINRA), which is under the jurisdiction of the SEC, and with each state where they operate.

RIAs that have $100 million or more of assets under management are regulated by the SEC under the Investment Advisers Act of 1940. Smaller RIAs are regulated under the laws of each state where they operate.

ALTERNATIVE MUTUAL FUNDS

Liquid alts, or **alternative mutual funds**, are, like all mutual funds, regulated by the SEC under the Investment Company Act of 1940. The act provides investors with certain protections, such as restrictions on debt, limits on illiquid investments, and the right to sell their shares at any time, which differentiate them from some other alternative investments.

Interval funds are non-traditional closed-end funds that are regulated primarily under Rule 23c-3 of the Investment Company Act but also by the Securities Act of 1933 and the Securities Exchange Act of 1934.

NON-TRADED REITs AND BDCs

With non-traded REITs and BDCs, the regulations that apply differ based on the way the businesses are organized. Both must register with the SEC, REITs under the Securities Act of 1933 if they are publicly offered and BDCs under both the 1933 Act and the Investment Company Act of 1940.

Non-traded REITs aren't listed on a national exchange, so they must register in states where they're sold. All offerings must be made by prospectus, following specific SEC guidelines for the information that must be provided and the format that must be used. There's specific focus on distributions, regular valuations, and the history of the redemption program, if the program includes one. NASAA's Statement of Policy Regarding REITs provides guidance regarding the make-up of the board of trustees, and sets standards for sales materials, fees and other compensation, investment restrictions, and suitability.

A BDC must provide a prospectus that describes its objectives and business plan, the amount of leverage it plans to use, and its fees and other expenses. Non-traded BDCs are also subject to state regulation, though the NASAA guidelines are less specific than those that apply to non-traded REITs.

PRIVATE PLACEMENTS

To raise money from investors without using a public offering, sponsors may offer an investment privately. This is legal provided the investment qualifies for an exemption from registration with the SEC.

The offerings are made under exemptions provided by Reg D of the 1933 Act. Then the only document that must be filed at the federal level includes the names and addresses of the individuals behind the offering. And if these individuals sell the offering themselves, they may or may not have to register or be regulated as broker-dealers.

If the issue is offered exclusively to accredited investors, the issuers can decide how much information to provide. The only rule that applies is that there must be no fraud involved. These offerings aren't subject to state regulation, except in the case of fraud. However, if non-accreditied investors are included in the offering, more oversight documentation is required.

Exemptions from registration are available under a number of other SEC regulations as well. These investments may have to be registered with the states where they are offered. Certain offerings, specifically those with drilling and mining operations, are excluded from exemption under NASAA's Statement of Policy.

LIMITED PARTNERSHIPS/LLCs

Limited partnerships and LLCs are created under state law and must register with the SEC if they sell shares to investors and don't qualify for an exemption from registration. Specific disclosure rules apply for gas and oil companies in filing registration statements and annual reports.

States may require registration of limited partnerships that are defined as securities even if the partnerships are exempt from registering with the SEC unless they are sold exclusively to accredited investors. NASAA's policy guidance provides for gas and oil partnerships to meet specific disclosure standards, including, among other things, requiring a prospectus, detailed background information about the sponsor, signed subscription agreements from each investor, and details of the fees and expenses.

COLLABORATIVE EFFORTS

Broker-dealers who have operations in more than one state can file a single broker-dealer registration form rather than a separate one for each state. And, in most states, the firm's representatives can meet the licensing qualifications by passing a Series 63 or Series 66 examination, which FINRA administers for NASAA. States also rely on the Central Registration Depository (CRD), an electronic registration and record keeping system for broker-dealers, which FINRA and NASAA developed collaboratively and which FINRA administers.

There's also a consolidated review process for issuers wishing to offer a program in several states. The issuers file a single application and are promised a response within 60 days. Two participating states lead the review, and when these reviewers approve the offering, all the participating states approve it at the same time.

Accredited investor is an individual or institution that meets minimum income or net worth standards the Securities or Exchange Commission (SEC) requires for investing in certain private placements. Offerings made to accredited investors do not require the same level of disclosure that is required for less affluent investors.

Closed-end funds sell shares in an initial public offering and list on an exchange where the shares trade at their market price.

Due diligence is the thorough investigation of an investment offering to evaluate the issuer's financial and legal standing, the business plan, and other factors that may influence the success or failure of the venture.

Exempt security is one that is not required to be registered with the SEC based on criteria such as the investors who will qualify to participate, the amount of money the issuer intends to raise, and in some cases the period over which the fund raising will take place.

Fiduciary is a person or institution responsible for making decisions on behalf of a beneficiary and is legally obligated to act in the beneficiary's best interest at all times. Some but not all investment professionals are fiduciaries.

Illiquid describes an asset that cannot be converted to cash quickly and easily at its fair market value.

Limited partnership (LP) is a business entity with one or more general partners who manage its operations and are legally liable for its debts, and one or more limited partners who have no management responsibility and no liability. An LP is organized under the rules of the state where it is established.

Liquidity event occurs at the end of a non-traded REIT or BDC term, when the investment's managers follow an exit strategy to dispose of the program's assets. Any net gains from the disposition are passed on to investors as part of their total return unless done as a tax-free merger.

Net asset value (NAV) is what one share, or unit, of a pooled investment is worth at any given time, based on the value of the pooled investment's holdings. With a traded investment, the fund managers calculate NAV at the end of every trading day by dividing the aggregate market value of the fund holdings, minus expenses, by the number of outstanding shares. With a non-traded investment, NAV is usually calculated less frequently and often by reference to an asset's fair value.

Non-correlation is when the returns of two different categories of investments do not move up or down in tandem. That's because the return on one category is not impacted by the same market forces that impact the return on the other.

Non-traded describes an investment that is not listed on a national exchange or traded over-the-counter (OTC). Rather, it is sold in an extended offering period and is designed to be held for a specific term, often in the 7 to 12 year range.

Private placements are investments that are not required to register with the SEC, are not publicly traded, and are typically offered only to investors who meet certain income or net worth standards or have allocated no more than a set percentage of their portfolios to non-traded securities.

Private Placement Memorandum (PPM) is a legal document that a company planning to offer a security in a private placement must provide to prospective investors. The PPM provides details about the offering's terms, objectives, risks, and other information.

Program is a non-traded investment that is sponsored by an offering company and sold to individual and institutional investors.

Prospectus is a written document that is required to provide enough detail about an investment offering, including its objective, risk profile, and fees, to enable potential investors to make an informed decision about whether to purchase it or not.

Return of investment means an investor is repaid investment principal. This amount is not usually taxable, though there may be exceptions.

Return on investment is the gain an investor realizes on investment principal. This gain is generally taxable, at whatever rate applies, when the investor realizes it in a taxable account. When the investment is held in a tax-deferred account, generally no tax is due immediately and the return becomes part of the account balance and is taxed at withdrawal.

Sponsor is the person or firm that creates non-traded investment programs and offers shares, or units, to potential investors through broker-dealers and other intermediaries.

Guide to Alternative Investments provides a complete overview of the range of alternatives that are available to investors, including REITs and BDCs, energy and leasing programs, alternative mutual funds, and private placements.

The potential benefits of these investments for investors is explored in depth, with discussions of diversification, income streams, and tax reduction tools. Also covered in the booklet is investor suitability, regulation, and the importance of pre-investment investigation as well as tracking alternative investment performance.

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