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Investment World - **Investments**
'Alternatives' that spell opportunity

A large number of alternative investments remain unexplored. The increase in appetite for newer, lucrative and structured investments is a clear sign of Indian markets maturing.



Usually, anything that is an 'alternative' is never really the preferred choice. Making do with a substitute is always reconciliatory. However, in the financial world, 'alternatives' spell opportunity. Alternative investments are meaningful deviations from mainstream, traditional investments. These are sure to surprise investors, with the depth and the wide variety they offer.

A large number of alternative investments remain unexplored and this means meaty opportunities for investors. Another significant benefit of alternative investments is the diversification resulting from low correlation with other investments. The increase in appetite for newer, lucrative and structured investments is a clear sign of Indian markets maturing.

Realty

Consider, for instance, the real estate option. Over the last few years, this had yielded substantial returns. Traditionally, treaded into for reasons such as security or having a roof over one's head, it is now transforming into a more productive investment option. This metamorphosis will be hastened when we see the introduction of REITs (Real Estate Investment Trusts) and REMFs (Real Estate Mutual Funds) in India.

Such belief stems from the reasoning that these entities have been successful worldwide in widening the scope of participants. To participate in the real-estate boom in India, currently one needs sizeable amounts of money. REMFs will help overcome this strong 'entry barrier', as what an investor will then need is a minimal amount of capital to benefit from the Indian realty growth story.

It works like any other mutual fund, with the monies collected from a number of investors deployed in real estate. The objective could be capital appreciation or regular income from mortgages. However, the road ahead is challenging.

There is a clear need to change parts of the legal and tax frameworks, the transaction processes, and the real-estate industry's transparency and disclosure levels. The Securities and Exchange Board of India (SEBI) is working on guidelines for the introduction of REMFs, and is also considering framing guidelines for REITs.

Art

Another interesting option worth giving serious thought to is art. From helping promote aesthetics to creating wealth, investment in art has come a long way. From being driven by the affluent and upper middle-class buyers, the dynamics of the art market is showing signs of change.

Over the last one year, India has seen an increase in art fund offerings. Such funds bring in the expertise of investing in art and look to generate medium- to long-term capital growth for investors. The returns from art are non-correlated with returns from shares. This, coupled with increased global recognition of Indian artists and a significant shift in preference of investment, has put the art fund market in a sweet spot.

Even though key concerns such as unregulated, illiquid and immature market remain, art does best when the economy is growing. Investors need to keep in mind that unlike stocks, art lacks intrinsic value and has a highly 'subjective' price discovery mechanism.

Gold

Not to be left behind is gold. The fact that India is one of the world's largest consumers of gold reaffirms the great Indian love story with the yellow metal.

The basis for such fervour is that traditionally Indians consider gold as a symbol of wealth and prosperity. In the last few years, with prices spiralling upwards, small investors have been forced to keep away from this sparkling alternative asset class.

Gold ETFs (Exchange Traded Funds) have now come to their rescue. These funds are listed and their units are traded on the stock exchanges in demat form. The NAV of these units are driven by the underlying gold prices.

The objective of such ETFs is to provide returns that closely correlate with returns generated by gold. The very low denomination (as low as 1 gm) is ideal for retail investors. Moreover, these are also backed by hallmark quality gold. Historically gold is considered as a good hedge against inflation. However, change in interest rates, and economic and political developments will tend to have a large bearing on gold pricing.

The 'alternative investment' market surely has a lot to offer. The depth and the complex nature sometimes make it difficult to analyse. Even though the opportunity for getting higher returns may be alluring, the primary focus of such alternative strategies should be optimal portfolio diversification and risk control.

(This article is sourced from Kotak Securities. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors, including their financial condition, suitability to risk return profile and the like, and take professional advice before investing.)

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