CONFIDENT CONVERSATIONS® on Retirement:
Traditional and Alternative Investments for Retirement Savings:
The Unique Benefits of Each

Kim Zook: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Kim Zook, and I'm excited to be your host. As someone who is naturally curious, I've dedicated my career to lifelong learning and asking the right questions to help people successfully prepare for retirement. My colleagues joining me today are financial professionals who also share my passion for helping people on their retirement journey, whether they are planning or already in it.

Today we'll be exploring the world of retirement investments with a focus on understanding the critical differences between traditional and alternative investment options. Whether you're new to investing or looking to refine your strategy, this episode will help you understand the benefits and risks of traditional investments, like stocks and bonds, as well as alternatives, such as real estate and private equity. We'll talk about why each type of investment matters, how they can work together in a well-rounded portfolio, and the importance of working with a financial professional to choose the best mix for a secure and rewarding retirement.

Joining me today are Multi-Asset Portfolio Specialist Kathryn Farrell and CERTIFIED FINANCIAL PLANNER™ professional Stuart Ritter. Welcome to the show, Kathryn and Stuart.

Kathryn Farrell: Thanks. Happy to be here.

Stuart Ritter: Thanks for having me.

Kim Zook: Well, it's good to have you both. And, Stuart, I know we've done another episode earlier in the season, so it's great to have you back. And Kathryn, we work together often, so it's great to have you here.

Let's dive into the episode. Could you start by briefly introducing yourselves to the audience and telling us a little bit about your background in investment and retirement planning? Stuart?

Stuart Ritter: I've been with T. Rowe for more than 25 years and a CERTIFIED FINANCIAL PLANNER™ professional for over 20. I help develop new insights about preparing for and living in retirement and share those insights with people so they can make better decisions about their future. And that includes the critical area of how to invest the money they're using for retirement.

Kathryn Farrell: And I started my career researching investments, both at a third-party ratings firm and at an investment consulting firm that advised retirement plans. I joined T. Rowe Price in 2017 as a Portfolio Specialist on the multi-asset team, which means I partner with our portfolio managers overseeing our strategies and provide updates on the portfolios and research to our clients and bring their insights back from the field.

Kim Zook: Excellent. Thank you so much, both of you. Kathryn, for our audience, can you help define or help them understand what multi-asset means. I think sometimes people on…you know, we work every day with investment acumen and different words and have intimate knowledge of it, but some of our audience this may be new for them. How would you describe multi-asset?

Kathryn Farrell: Great point. Multiple asset classes - which means it's going to be a mix of stocks, bonds, other different alternatives, like we'll talk about today, could be part of it. I think of it kind of like a smoothie.

Kim Zook: Okay.

Katherine Farrell: You've got fruits. You've got vegetables. Maybe you've got some protein powder. It's there to give you a well-balanced kind of stable experience.

Kim Zook: Excellent. So multiple ingredients. I like it a lot. And I am a smoothie fan. Great, thanks for doing that. And so, when it comes to investing for retirement it seems like, to your point about the smoothie, there are countless options available. How can an investor go about assessing the universe of options that are on that menu, if you will, and choosing what's right for their portfolio? Stuart?

Stuart Ritter: As we've been talking about already, we're going to spend this episode talking about two main categories: traditional investments and alternative investments. And understanding the characteristics, benefits and risks of each can help an investor build that well-rounded investment portfolio, just as we're building a well-rounded smoothie.

Kim Zook: Awesome. That sounds good. And now you're both making me hungry. Let's start with an area where listeners might be a bit more familiar. Can you talk about what types of assets fall under traditional investments for retirement, Stuart?

Stuart Ritter: Sure. And they're called traditional because they've been around for a long time, people are very familiar with them and it's what Kathryn was talking about. It's stocks and bonds. I'll talk about the different parts of traditional investments, the different pieces of those parts, and then how they all have to move over time together. So, you've got your stocks, you've got your bonds and when you're deciding how much of each to have, a lot of that is driven by your time horizon and other things like your risk tolerance. But when people think about traditional assets, they're thinking stocks and bonds and figuring out how much of each they might want to have.

Now, within each of those traditional asset classes are different pieces, and that's where the term diversification comes in. So, there are different kinds of stocks. There are stocks of large companies, medium sized companies, small companies, U.S. companies, non-U.S. companies, different kinds of bonds, short-term, long-term, different kinds of risks associated with them. What you want to do when you're putting a portfolio together is make sure, first of all, you've got the right mix of stocks and bonds for that time horizon and your risk tolerance. And then you also want to make sure that you're diversified – that you don't have so much of your money in one individual investment or one part of the market that if something goes wrong, now you're at risk of not being able to buy whatever it was you wanted to buy because that wrong thing happened. So, you put the stocks and bonds together. You hold different kinds of stocks, different kinds of bonds. And then – there’s more – then you've got to make sure over time you're both rebalancing it – once a quarter, once a year – whatever target you've set. And as time goes by, your time horizon shrinks, now you've got to shift from stocks to bonds. So, it's not a one-time thing. Those traditional assets are stocks and bonds, you've got to have different kinds of stocks and different kinds of bonds, and you have to make sure that you're maintaining the appropriate diversification over time and changing what your mix is to meet your goal.

Kim Zook: That feels like a lot to keep track of.

Kathryn Farrell: It does. I'm going to make a plug for target date strategies right here. I think for some retirement savers, the idea of navigating just that list of investments and the time horizon aspect of it is really overwhelming. And target dates, they're actually becoming the most popular investment choice in 401(k)s. The strategies are an easy to use, all in one option that can help an individual get the right allocation at the right point in their lifecycle and have it automatically adjusted over time, all managed by a professional.

Stuart, you did a great job expanding upon these solutions in an earlier podcast with our Head of Target Date Strategies, Wyatt Lee. For those of you listening who are interested in learning more about the “do it for me” option, that episode is definitely worth a listen.

Stuart Ritter: And I think, Kathryn, that was your point about the smoothie. Somebody could go get the individual fruits and the individual vegetables and all the other things and put it all together. Or they could just get a smoothie and it's all right there.

Kathryn Farrell: Absolutely.

Kim Zook: And if there's a freeze in Florida and the oranges, for whatever reason, you made a point, Stuart, about not putting everything into one fruit. So, if you were going to order an orange smoothie, you're betting that oranges will be in season, they'll be ripe, they'll be healthy. But if you do a smoothie with a bunch of different vegetables and fruits, you've got some apples and some peaches and some kale. You're basically spreading out your risk of something having not be available, a key ingredient to that smoothie. And so, for our listeners out there who are thinking about this, that's the same exact concept for investments and that's how we want you to think about it.

Stuart Ritter: Exactly.

Kim Zook: Great. Thank you, Stuart and Kathryn. It appears that traditional investments, Stuart, you said they're well-established, they've been around a long time, and it sounds like they likely should account for the bulk of a portfolio.

Stuart Ritter: Yes.

Kim Zook: Okay. Now let's shift gears to alternative investments. These are assets that fall outside of the scope of traditional markets. So, for the audience, think private equity, real estate, hedge funds, commodities, art, collectibles, and even cryptocurrencies. Kathryn, can you tell us more about these types of nontraditional assets and why so many people are talking about them?

Kathryn Farrell: Absolutely. Alternative assets have been gaining more and more attention in recent years. Can we call them the like Chia seed of the smoothie? Like a lot of interest, maybe not quite so sure what they do, but…

Kim Zook: That's right.

Kathryn Farrell: …maybe they have a place, maybe they don't. There's different types though. They're used, they're accessed in different ways. These investments can be enticing because they often claim potentially higher returns than traditional asset classes, or a potential hedge against different types of volatility, or freezes in Florida. For example, real estate can generate rental income, it can appreciate in value. Or there's things like commodities, like gold, that can act as a safe haven in uncertain markets.

Alternative asset classes fall on a wide spectrum, and they can mean different things to different people. On one end there are just different flavors of stocks and bonds that can be considered alternative asset classes, such as inflation-like bonds like Treasury Inflation Protected Securities, often referred to as TIPS, or Real Estate Investment Trusts, also known as REITs. Some nontraditional bonds that are designed to have lower correlations to equities and interest rates can also be considered alternative investments.

Then there's less liquid, private asset classes that you mentioned, Kim, meaning those that aren't publicly traded on an exchange or that go through an intermediary like a bank. These include private equity, private credit. These represent an increasingly large and growing portion of the global investment universe. They're similar to the more traditional stocks and bonds we discussed earlier but again, they're not going to trade…they don't have the same information available in the same ways.

And then finally, there's hedge funds. That can come in a whole variety of different categories. They could invest in public or private assets, but they're going to use more unique strategies. Sometimes they'll hold securities long, meaning they think the price will go up. Or they may short securities, meaning they're betting the price will fall. Or they could be offsetting another holding or risk in their portfolio.

Kim Zook: Well, Kathryn, that's interesting. And in terms of alternatives, those are some newer concepts for folks that they may not realize in their 401(k), 403(b) or whatever their retirement plan or pension, might invest in. But I do know for me, in the last 15 years I've learned a lot about what these concepts are and the impact they can have. Could you talk a little bit more detail about each of them individually?

Kathryn Farrell: Sure. Again, I'll start with some of the private asset classes. I think those are getting a little bit more attention in terms of moving from that more institutional, pension, endowment, think big universities…

Kim Zook: Okay.

Kathryn Farrell: …creating their own asset allocations and coming a little bit more, I'm going to say mainstream, like getting a little bit more attractive or get more attention from the individual or more, kind of, regular investor these days. So, things like private equity with concepts of fewer public companies out there in the investment universe, more M&A activity, reducing the number of companies, the potential to invest in smaller market cap companies that might not be coming public as much. That's really what private equity is coming into play for. Where you think about, it could be an investor rolling up their sleeves and making an investment in a company and trying to change the direction of it, trying to influence management or restructure the company. But really the goal is going to be to increase the value of that company. And again, that private aspect is it's not going to trade on an exchange.

Kim Zook: Right. So, you can't look at your app. I'm just I'm thinking of, of, you know, on someone's phone or if you track the markets, private companies they are not going to be publicly traded. You know, for our audience, think of when Kathryn talks about exchanges and markets. That's not something you can look up a ticker, right?

Kathryn Farrell: That's right.

Kim Zook: Okay.

Kathryn Farrell: There's no ticker. It's not registered with the SEC. It's not going to have the same kind of filing requirements or kind of hurdles that other public businesses go through so that the information isn't as readily accessible.

Kim Zook: Got it. Great.

Kathryn Farrell: Private credit is another category where there's even different flavors and different subcategories in it, but in essence it's like you making a loan to a neighborhood business. So instead of them going through a bank, they are getting money in terms of a loan directly from an investor. And so, it's a single investor or group of investor and that company that's looking for the investment, they maybe don't want to or can't go through a traditional bank to get a loan, like other kind of bigger corporations might.

And then the last private area of the market that I'll touch on in terms of the conversation today, it's private or direct real estate. And this is investing directly into a specific property or series of properties. One of our portfolio managers describes real estate as that more familiar asset class. Many of us have a mortgage.

Kim Zook: Mmhmm. Sure.

Kathryn Farrell: We're used to making the payment every month. You can look at a building and really see the tangible property, the value of it is unlikely to go to zero.

Kim Zook: Right.

Kathryn Farrell: It's likely to have some worth overall. So, it's a more intuitive asset class for a lot of people. And when you're making an investment, instead of buying a whole host of properties like through an investment group or a portfolio, you're getting an investment in a specific property. So, you're potentially, kind of like a landlord, able to determine how to invest in that property, how to make upgrades, you are getting the cash flow from that. And it can be an attractive way to diversify a portfolio.

Kim Zook: Excellent. That's really helpful, thank you for that. I know a hot topic lately has been cryptocurrencies, or digital currencies. Those have been very popular in my family. Probably because our newsfeeds in the last, I would say decade or 15 years, my brother, in particular, took a huge interest in them. Can you talk a little bit about those and educate our audience on what they are?

Kathryn Farrell: Yeah, definitely hear that. I think it's hard to go to a family gathering without being asked about it.

Kim Zook: Yes, yes.

Kathryn Farrell: So, it's definitely something I think, again, more and more people are seeing in the headlines. And often they're seeing cryptocurrencies in particular because they have really volatile prices. You've seen really eye-popping returns and then spectacular crashes. There are actually thousands of different cryptocurrencies around the world. I would say there's only really a few dozen with significant investment dollars in them though.

Kim Zook: Okay.

Kathryn Farrell: So, things like Bitcoin is the most well-known. It's been in existence, as you mentioned, for roughly 15 years. And in 2024, the first exchange traded fund launched that actually tracks its value. So, it's becoming accessible in different ways.

Kim Zook: Thank you though for explaining. Like, first of all, I didn't know there were thousands, I thought there were maybe a handful of different cryptocurrencies, but as you mentioned, our family table, people will ask and hear about those kind of a rollercoaster ride of the volatility around cryptocurrencies.

Some other examples, beyond my family, I happen to know someone who has collected, you know, collectibles is another area right beyond cryptocurrencies. I know someone who's collected musical instruments that have really gained value in the past couple of decades. And what I mean by that is if they were to sell them, the value has gone up so significantly that they would make a sizable amount compared with other collectibles, like people I know who collected Beanie Babies.

Kathryn Farrell: Yeah, that was me. That was me.

Kim Zook: Do you know Beanie Babies? Both of you? Okay.

Stuart Ritter: I do.

Kim Zook: There's a lot of smiles all around, which now, unfortunately are not worth very much.

Kathryn Farrell: Very cute, but not...not worth anything.

Kim Zook: Yeah, very cute. Kind of a thing where I grew up. But in all seriousness, Kathryn, what are other alternatives that have been in the headlines lately beyond crypto and collectibles?

Kathryn Farrell: Yeah. Well, we'll put those on the shelf, for today's conversation at least, dusty on my shelf at home in the literal sense. But, you know, I mentioned private equity, private credit, those have been two that have been in the news recently over the last few years. And I mentioned, historically private investments like that were really only accessible to the institutional investors – pension funds, endowments, foundations. These types of investors have long time horizons and a lot of savvy investment staff. They're well capable of managing the liquidity needs for an investment in these types of assets, and the research that's needed to really understand the risks and the tradeoffs. So that's what we've seen historically, but now we're seeing more interest in utilizing these types of alternatives in more mainstream retirement investments, such as working through your financial professionals or in custom multi-asset portfolios. We've seen some signs that there's regulatory changes. There's also efforts by asset class managers to make these more accessible, so ETFs we mentioned.

Kim Zook: Okay.

Kathryn Farrell: Partnering with more traditional asset managers, for example. We've seen even defined contribution plans look to incorporate private investments in their 401(k) plans. But mostly it's occurring through custom target date strategies, where it's part of that kind of more diversified portfolio and it's used with that long time horizon of retirement.

Kim Zook: Okay. So that's really interesting because when we think about some of the reasons why, just for our audience, I would offer, you know, a decade or two ago, there were twice as many publicly traded companies available on those markets, whether it's New York Stock Exchange or NASDAQ, where people could be investing in thousands and thousands of public companies, which you can still do, but far less are available today. And part of these, is you call them institutionals, as you mentioned, pensions, endowments, foundations, charities, organizations that have people who wake up every day thinking about and actually researching how to manage that money so they don't do a job and then just check on this once in a while, that is what they do every day in and out. Those are looking at alternatives to help ensure that those assets continue to grow. And because there haven't been as many, more companies are going private or staying private, that's where you'll see these organizations try to tap into these alternative investments. So, for our audience is wondering why the proliferation that's another factor beyond the regulatory part. It sounds like if I heard you right, Kathryn, and please confirm this, sounds like you're saying alternatives can play a role in diversifying a portfolio, but accessibility. You said the words liquidity. But I want to make sure I'm understanding, accessibility and utilization could be limited for the common investor, and that can introduce some significant risks.

Kathryn Farrell: That's right. There's an allure of higher returns or lower risk that makes many of these types of asset classes attractive. But here's the thing. Again, alternative investments can be complex. They're less regulated. They're harder to trade, again, not on a public exchange. They're more difficult to evaluate than a traditional investment. So, take private equity as an example. It involves investing in those companies that are not public, so they don't have the same regulatory requirements, the same disclosures. As you mentioned, you're not just going on Yahoo Finance, putting in the ticker, getting all the information right at your fingertips. You have to navigate how you value the business, what's the management structure, what are some of the risks facing the company and really think about what's going to be attractive in the long term with this investment.

Some other considerations across different private asset classes are the transparency. Again, these investments aren't regulated in the same way as traditional stocks and bonds, so reporting requirements vary. Information can be more difficult to come through from public sources. Costs have often been a high hurdle as well, that can impact the value that an investor is going to get out of these investments. Certainly, you want to think about value for cost when you're considering any type of investment.

And as you mentioned, Kim, they're often less liquid, meaning that your money can be tied up potentially for years. You know, you think about liquidating a building if you own an investment in that, that could take a very long time. You don't see buildings up for sale quite too often. Even private equity, it's typically locked away for years. Private credit tends to have a little bit more liquidity, a little bit shorter of a time horizon, but still, you have to think about I might not be able to access my money right away, and you have to be okay with that and kind of acknowledge the tradeoffs. So, it's a lot for an individual who maybe doesn't have the time or the resources to master this space.

Stuart Ritter: Kathryn, that goes back to what Kim was talking about earlier, that there are professionals that that is their job. And those experts have the tools, experience, networks to vet these opportunities, manage the risk. They have access to exclusive deals and funding opportunities that aren't available to the average investor. That's the business they're in, so that's where people will potentially go to first. So, they're better equipped to understand how to balance the alternatives. If now we're talking about an individual investor with that investor's broader financial goals, if someone is curious about purchasing alternative investments directly for their portfolio, getting a professional involved is probably a good idea. I always think of it this way. If I cut my finger, I'm okay putting a Band-Aid on. But if my appendix needs to come out, I'm going to want a professional involved. So, when we move beyond…

Kim Zook: Agreed.

Stuart Ritter: …the traditional stuff into the alternatives, you probably want a professional involved. Now you can also, as you pointed out, Kathryn, access some of these alternatives as part of a professionally managed, diversified portfolio of investments. That could be mutual funds, exchange traded funds. So, it's not as if people should be thinking, "Gee, if I don't have a direct investment, then I don't have any exposure to this." You may have it already because if you've got something that is a broad investment, it has broad investments, it could include alternatives in it.

Kathryn Farrell: That's true. There's definitely more, kind of, the traditional alternative investments that can be in some portfolios today. So, investors might be familiar with their target date portfolios having real estate, having inflation focused bonds, even some nontraditional fixed income or hedging techniques. And some equity mutual funds may include access to private equity already, particularly from large, well-established asset managers who are getting access to investment opportunities before the IPO, or initial public offering.

And just kind of add on to Stuart what you're saying, there's investors that are familiar with it and I think that's where we're going to see a shift in the retirement space within maybe defined contribution plans, where a company could have a pension committee, they're working with private asset managers already, they're comfortable with the liquidity, they understand the tradeoff, they understand how to assess the value that they're getting from the investment, and the benefits it could provide. And I think it's kind of those plans where we're starting to see a little bit more interest in including this in a 401(k)-type investment and thinking about, "Well, again, I understand the asset class. I'm comfortable working with a set of managers. I know there's going to be a broad range of experience in any, any of these portfolios," but that's where I think you're going to kind of maybe see investors start to see more of it within their defined contribution plan.

Kim Zook: That is so useful and helpful, thank you both for that. And, Stuart, I definitely hear what you're saying about the Band-Aid, definitely for the finger cut and not for the appendix. So that is, for our audience, why I think about alternatives, I think about you'd want a surgeon for the appendix, for alternative you'd want an expert, a financial professional, to help walk you through or educate you and/or take care of whichever ailment or interest you have. So, thanks again.

I think about what we emphasized earlier, the importance of understanding, Kathryn, you walked us through the characteristics of and benefits and risks of each option, which was really helpful. Can you, Stuart, tell us more about the practical perspective? How can an investor decide which type of investments are right for them?

Stuart Ritter: It starts with thinking about what your goal is, "What am I going to be spending this money on?" Am I spending it on a cruise in retirement? Am I using it to pay for my kid's college education? Am I using it in a couple of years to go on a vacation? So, start with that. That again gives you your time horizon. When it comes to your personal risk tolerance, understand that there are lots of different kinds of risks. Kathryn has a number of times mentioned something called liquidity risk. If I have something that I can sell quickly and turn it into cash, that's liquid.

Kim Zook: Okay.

Stuart Ritter: But if I've got a building and it's going to take two years to sell it before I see any cash, well, if I need the money quickly, that's a risk I face if that's where I've put my money. So, there's liquidity risk. There's the risk of how much something might go down in value in a short period of time, how long it might take to come back. So, you really need to think about the risks that are involved and that is a great discussion to have with whatever professional that you may be involved with to help you with this process.

The other thing to think about is "How does this fit into my overall portfolio?" What you don't want to do is put a well-constructed portfolio together and then off to the side start messing with something. They all fit together.

Kim Zook: Okay.

Stuart Ritter: So how does it fit in? And it's not just what are the risks associated with this one particular investment, but how does it fit with the rest of my portfolio? Part of the reason we talk about having both stocks and bonds, well, historically stocks have had a higher return, bonds have had a lower return, but stocks go up and down more in the short term than bonds do.

Kim Zook: Right.

Stuart Ritter: So, when you put the two together, it gives your portfolio a different look. So how does adding potentially an alternative to your portfolio change how your portfolio might behave? As I say, consider the time horizon and stay informed. That's the research that both of you have been talking about. This is not something, especially if it's alternatives, that means we don't have as much history, we don't know as much about how it performed historically. So, you're going to want to spend more time monitoring it, and that's one of the things to take into account as you're thinking about how you want to use these.

Kim Zook: Excellent. Very, very helpful and important. Kathryn let's turn to you. How should our audience think about the balance between traditional and alternative investments in their portfolio?

Kathryn Farrell: I think all the points that Stuart made on risk tolerance, time horizon, they all hold true for investing in both traditional and alternative investments. With some alternative assets, like private equity or private real estate, your time horizon can be delegated to you, it's kind of set up by the investment that you're making and the terms of that deal.

Kim Zook: Oh, so that has like a fixed timeframe? Meaning when you say delegated to you, if I'm investing, Kim doesn't have the choice of if this investment lasts for five years, that's the time of the investment, there's no choice on my part?

Kathryn Farrell: That's often the case.

Kim Zook: Okay.

Kathryn Farrell: Or it's not going to be something that you can kind of change easily in the short term…

Kim Zook: Got it.

Kathryn Farrell: …so if you wanted to get out of it, you would probably have to sacrifice some of the upside to find another buyer for the asset, and that could be impactful on your outcome.

Kim Zook: Okay.

Kathryn Farrell: I would say that you want to define the role that each of these are going to play and think about, is it going to be driving growth? Is it going to be mitigating a risk? Where are you sourcing it from in your portfolio? Are you looking at a replacement for more traditional equities? Are you looking at replacement for more traditional fixed income? And that can impact the sizing and when individuals need to start thinking about adding them to the portfolio.

When we look at private assets across a lot of advisor or multi-asset portfolios, we typically see ranges of 5 to 10% incorporated, so kind of think single digit allocations to any individually and maybe up to double digits all together. The more you allocate, the more you'll see an impact on your results. However, that can have an impact, as mentioned, on the liquidity, the portfolio, as well as the fees.

Kim Zook: So, like, back to what Stuart was just saying about in a situation where someone needs to access their money for an emergency, I know that our audience, thinking about savings and retirement plans, we do know there are a few reasons when you can access it if you need it quickly. And so now, Kathryn, you're saying that the traditional allocation of alternatives is 5 to 10%. So only part of a portfolio, if they used it, would have illiquidity. If you could all see me, I'm using air quotes. But I think that's an important distinction that what professionals that do this, they think about the whole smoothie. Back to the smoothie. So, Stuart talked about stocks and bonds and how traditionally stocks outperform, but they also go up and down. So, can you sleep at night? But then you have bonds to help you sleep at night, maybe they perform a little less, but they help you sleep because maybe they have a steady or more conservative risk amount. You're talking about how an allocation of alts, or alternatives, rather, sometimes called alts. And traditional. So, I love hearing both of these perspectives.

Stuart, are there common mistakes people make? Because you've both given really helpful information. But I'd love to hear what mistakes you might see retirees making when it comes to including or excluding alternatives.

Stuart Ritter: Yeah, the biggest mistake, and this is going to be an obvious one, is people tend to over include something, and that's very often because we get a skewed perspective. When something new is around the analogy, I use sometimes is you always hear when people win…

Kim Zook: Yes. Yes.

Stuart Ritter: …at something. Let's say they're going to a casino or something.

Kathryn Farrell: Yes.

Stuart Ritter: Very few people come out and start bragging about how much they lost.

Kim Zook: Fair.

Stuart Ritter: So, since you only hear from people who win or you only hear from people when they win, it can give you this skewed perspective. You're thinking, "Wow, everybody else is winning and they're winning all the time, I must be missing out on something." And that can entice people to get involved in something that maybe they're not quite ready for. So…

Kim Zook: A little FOMO, Stuart. A little Fear Of Missing Out.

Stuart Ritter: Exactly. Because you're only hearing the positive side of it.

Kim Zook: That's right. Or a recency bias. So, I love studying all of these behaviors, but I think they're very important and related to what you're saying because if I'm at a friend's barbecue and they're talking about something making a ton of money, I might mistakenly think, “Oh, maybe I should invest in that.” But I didn't hear the mention when they didn't make any money.

Stuart Ritter: Yes.

Kim Zook: Got it. Okay.

Stuart Ritter: Absolutely. So, bear that in mind as you're thinking about it and answering your question, what is the mistake that a lot of people make? Well, whatever had the recent good performance or whatever is in the headline and certainly not recognizing that we're getting often a skewed perspective. I mean, people are talking about what's exciting. You're not talking about the team that lost the last three games they played.

Kim Zook: Right.

Stuart Ritter: You hear about the team that's winning. And it can give you a bit of a warped perspective on what's going on. Often, people will end up losing more money by going for something that doesn't work out than they do by missing out on something that happened to go up.

Kim Zook: Okay.

Stuart Ritter: So, if you miss out on the moonshot, but it means you avoided a crash landing…

Kim Zook: Right.

Stuart Ritter: …that's probably the better way to go in terms of putting your portfolio together and achieving your financial goals. So, the first answer to your question is the mistake people make is they over-include something.

Kim Zook: Okay.

Stuart Ritter: They get overly excited, they put too much in, they don't invest in it in the right way. They haven't got a professional involved.

The other side of that though is they over-exclude something. They say, “Okay, I'm hearing about this, but I'm not going to get involved with it at all or I'm going to put too much of my portfolio in one area because I'm avoiding something that would make sense for my portfolio.” Again, it's a reason for people to potentially get a professional involved to think about in terms of their goals and their overall portfolio. And that's why we're putting this podcast together so people can understand alternatives and see whether or not and how much that might make sense for them.

Kim Zook: And I like to call that FOMU - Fear Of Messing Up.

Stuart Ritter: Ooooh, very good.

Kim Zook: FOMO and FOMU, and I think – the acronym for the audience F-O-M-U – your point about under-including or avoiding an investment or an alternative maybe out of fear of taking risk, but that could sometimes be Fear Of Messing Up. But then back to your point about an investment professional, they're not having FOMO or FOMU, they are an expert, this is their profession and what they do every day. So, I really like the comparison and contrast because to your point, if you're doing under or over, really you want to be doing something in the middle. And if you are not able to make those financial decisions without emotion, it's best to consult a professional.

Stuart Ritter: Yeah. It's also important not to get caught up in the idea that, "Well, I'm going to go do this because it sounds really good" and use diversification as an excuse to move off of what would be an appropriate construction of your portfolio.

Kim Zook: Yes, yes. I like it. Excellent. Thank you, Stuart. It sounds like alternative investments can add an extra layer of diversification to an investor's portfolio and provide opportunities for growth. However, they can also come with unique risks and challenges. It's important to thoroughly research and understand these options before investing.

Well, friends, it is hard to believe, but it is time for us to start wrapping up the discussion. Let's leave our listeners with some parting thoughts and next steps. We'll start with you, Stuart.

Stuart Ritter: I'm going to repeat something Kathryn said, use alternative investments the way you've been using traditional investments. Start with your goal. Create a mix of stocks and bonds appropriate for your time horizon. Diversify with many different kinds of investments and understand that alternatives could be part of that diversification.

Kathryn Farrell: And I'll just add, when you're planning for retirement, when you're planning for any major goal, you want to keep that long term outcome in mind. You want to create a portfolio that's going to be durable in different types of environments. Both traditional and alternative assets can be part of that journey.

Kim Zook: Excellent. Thank you both for those takeaways. And there you have it, audience. There are certainly many different ways to invest for retirement. Combining traditional and alternative retirement investments can help improve diversification and enhance potential for growth. Hopefully we've given our listeners some food for thought, beyond just smoothies, that you all can also make some informed decisions about your financial goals, risk tolerance and investment horizons. Please be sure to consult with your financial professional about any questions you may have about what was discussed today.

Again, I'm Kim Zook. Thank you for listening. Please tune in to our next episode on common retirement savings mistakes and how to avoid them. If you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember that a confident retirement starts with asking the right questions.

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