Trends in Portfolio Diversification

Portfolio diversification has evolved from maintaining an allocation of stocks, bonds, and the occasional stack of gold bars. Investors are increasingly looking for other investments to maximize returns, provide income and protect from the market risk found in traditional asset classes.

Real estate, private equity and hedge funds were once a main haven for investors who were looking to diversify their portfolios, but today's high net worth families are also looking to other asset classes such as cryptocurrencies, farmland and timber to invest their money.

Bitcoin -- the notoriously volatile digital currency -- has attracted the attention of investors interested in diversifying their portfolio while being plugged into the next new thing.

Meanwhile, some other assets have been gaining investor attention and have been around much longer – for example, farmland and timber. As the U.S. becomes more urbanized, farmland will become more scarce, which may create an interesting investment opportunity. Farmland is sometimes called "gold with a coupon" because investors get current cash flow from rental income paid by farmers leasing the land and also preserve the ability to capture capital appreciation from the underlying asset.

This is not to say that farmland is an investment to be entered into lightly. Although there is upside to this asset class, investing requires access to market data -- which is not as readily available as stock and bond data -- as well as the expertise to analyze that data. Assessing the land value, the market for the crops grown on the land and the consideration of who will handle the tenant management are some of the factors to consider.

Investors in farmland should be prepared to invest in this illiquid asset for the long haul. Estimated returns for farmland are capital appreciation in the range of 5 to 7 percent and income of 4 to 6 percent, according to a recent report from U.S. News & World Report. Of course, those returns can vary from year to year based on the type of farm and the seasonal conditions.

As with farmland, timber investors should also be willing to have their investment tied up for a number of years, often without any current cash flow. While farmland investors can expect rental income every year, timber investors could wait years for the trees to mature and become ready to harvest. Working with an experienced manager may be critical when it comes to issues like determining when to harvest as the market for wood products can change with time.

Despite being considered an alternative asset class, timber has some correlation to the equity and bond markets. Timber is most closely related to the housing market, which tends to fare better when other markets are performing well.

Whether investors are looking for an alternative investment with greater risk -- such as bitcoin -- or longer-term illiquid vehicles like farmland and timber, there are other options to consider when building a portfolio. For additional information or to discuss a specific opportunity, contact your trusted advisor or Daniel Torcasi, a member of Anchin Private Client, at 212.840.3456 or info@anchin.com.

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