

What University Endowments Have Taught Us About Investing in Volatile Times



INVESTOR EDUCATION SERIES

Last month, we introduced you to The Household Endowment Model[®], an investment platform for accredited investors. Similar to the Yale Endowment Model, we work with superior portfolio managers that invest in a broad range of public and nonpublic securities, including real assets. These managers typically specialize in only one particular asset class and are monitored on a regular basis for risk and returns by our investment team.

Among the benefits of our model is diversification and non-correlation. During the financial crisis and Great Recession, the portfolios of those investors with most of their “eggs in one basket” i.e., the stock market, were severely and negatively impacted. Our platform offers strategies designed to generate positive returns even when particular securities or asset classes decline in value.

Investing across a broad range of opportunities across financial markets, asset classes and investment styles helps to smooth out returns and reduce risk. The Household Endowment Model[®] offers a wide range of portfolio possibilities, including investments you already know about such as stocks and bonds, commodities, private equity and real estate¹.

The difference is that our outside managers have more leeway in how they construct portfolios compared to a mutual fund manager who generally constructs a portfolio based on a particular investment objective or style. Many of our portfolio managers also tactically adjust their portfolios to current market and economic conditions.

Absolute return strategies, for example, seek to provide positive returns and outperform in a wide range of market conditions. Rather than just conventional, long-only investing, absolute managers can sell securities and hedge specific types of risk. This strategy seeks to reduce volatility and is more flexible than a strategy which tracks a benchmark index like the S&P 500, for example.

The Household Endowment Model[®] also includes investments in private equity. Private equity is an asset class consisting of equity and debt investments in companies, infrastructure, real estate and other asset classes. Capital invested in this asset class is typically raised from a range of accredited investors through private, rather than public, means. This alternative asset class has existed in some form for decades. Real estate, meanwhile, may offer investors steady rental income, dividends, capital appreciation and tax benefits. The private equity real estate managers we work with develop, source and manage commercial, multifamily, industrial and luxury apartment complexes providing you with a broad range of opportunities and diversification with established managers who have long term track records going back 40+ years. (Watch for our upcoming articles on private equity and venture capital investing). Call us today at (480) 889-8985 to find out how The Household Endowment Model[®] fits in your investment strategy and be sure to visit www.thehouseholdendowmentmodel.com to download our whitepapers.

¹ “Investments have risk, including loss of principal”.