

GLOBAL TRENDS OF ALTERNATIVE INVESTMENTS

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An alternative investment is an investment product other than the traditional investments of stocks, bonds, cash, or property. The term is a relatively loose one and includes tangible assets such as art, wine, antiques, coins, or stamps and some financial assets such as commodities, hedge funds, venture capital, and others. At the moment it was created a global industry opportunities for making investments in nontraditional form. The aim of this paper consists in demonstrating the possibilities of these investments. For this have been studied related main international markets, after then deducted world dominant trends. This article is concerned to present some details of alternative investments global market.

Key words: *alternative investment, gold, diamonds, wine, art, real estate.*

O investiție alternativă este un produs de investire, altul decât investițiile tradiționale de acțiuni, obligațiuni, în numerar sau bunuri. Acest termen are o tratare relativ liberă și include active corporale, cum ar fi arta, vin, antichități, monede sau timbre și unele active financiare, cum ar fi imobilul, capitalul de risc și altele. La momentul de față a fost creat un șir de oportunități ale unei industrii la nivel mondial pentru a face investiții în formă neconvențională. Scopul acestei lucrări constă în demonstrarea posibilităților acestor investiții. Pentru aceasta au fost studiate principalele piețe internaționale aferente și au fost deduse tendințele mondiale dominante. Acest articol este dedicat să prezinte unele detalii privind investițiile alternative pe piața mondială.

Cuvinte-cheie: *investiție alternativă, aur, diamante, vinuri, obiecte de artă, imobil.*

Альтернативные инвестиции являются инвестиционным продуктом, которые отличаются от традиционных инвестиций в акции, облигации, денежные средства или имущество. Термин является относительно свободным и включает в себя специфические материальные активы, такие как искусство, вино, антиквариат, монеты или марки и некоторые финансовые активы, такие как товары, хедж-фонды, венчурный капитал и другие. На данный момент были созданы глобальные возможности и отрасли для инвестиций в нетрадиционном виде. Цель данной работы состоит в демонстрации возможностей этих инвестиций. Для этого были изучены основные связанные с ними международные рынки, а затем были представлены мировые доминирующие тенденции. В данной статье рассматриваются некоторые детали альтернативных инвестиций на мировом рынке.

Ключевые слова: *альтернативные инвестиции, золото, бриллианты, вино, искусство, недвижимость.*

JEL Classification: *F21, F65, G15.*

Introduction. Within investment activities exist placements known as traditional investments:

- *real investments*, which is the allocation of funds directly to constitute real assets (buildings, constructions, means of conveyance, land etc), whose functionality is evident and traditional;
- *portfolio (financial) investments*, which is realized through the purchase of securities, creating bank deposits etc., especially taking into account the bank interest rate, depending on which determines whether they are or not profitable.

They are called traditional for the simple reason that there are over a hundred years.

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But in recent decades, they have emerged and other types of investments appeared, generally known as alternative investment.

Defining alternative investments. According Investopedia “an alternative investment is an asset that is not one of the conventional investment types” [2].

These are investments of capital that are not attributable to traditional asset classes. In other words, alternative investments – is an unconventional investment, designed for long term. Unlike traditional investments, money is invested not in bonds, stocks, deposits or debt obligations [7].

The use of such assets in formation of an investment portfolio can increase its profitability and the level of diversification, so when it is formed must play an important role. Also using them to create a completely unique structure of the portfolio, it is qualitatively different from the traditional [8].

There is a separate market for alternative investments and its existence provides a lot of opportunities for a wide variety of investments. Available options investment funds enable investment choices to ensure a sufficient level of portfolio diversification and the possibility of maximum risk reduction. If is considered all the existing types of alternative investments, then they can be conditionally divided into several broad categories [2], [6], [7], [8], [9], [17], [18].

The first category of alternative investments is specific financial assets. This category may include those financial assets that are not related to any kind of debt or business tools of the financial market. In turn, in this category, you can select certain types of alternative financial assets:

- *Venture capital investments* in companies that have been formed recently. Such investments have a fairly high degree of risk, but at the same time and potentially high income. Such conclusions can be drawn for a long time existing major venture capital funds. Total assets of the top five largest funds in the range of 10 billion dollars, and the yield reaches 50% in some cases.

- *Hedge funds* – this are association of investors, typically registered in offshore zones with the condition private partnership. The organization of such partnerships aimed at reducing taxation. Since the choice of instrument and related asset management strategy is loose enough, the profit and depends entirely on the skill level of control of these funds. In some cases, the yield of hedge funds reached 500%, while the other, with a wrongly chosen development strategy and have suffered substantial losses.

- *Exchange-traded funds (ETFs)* – an investment in fund, the structure of which is tied to index certain areas: industry, region or market. This tool has enough free circulation on the stock exchange.

The second category of alternative investments is specific physical (real) assets. This category of alternative investment is not less extensive than the first. And it can also be divided into several types:

- Works of art and antiques. Any investment in art market assets.
- Investments in gems and precious metals. This kind of investment means an investment in all kinds of precious metals and gems in accordance with generally accepted classification. The most reliable are the investments in gold.

- Real Estate. Investments in real estate is rather stable source of income.

- Resources. Investments in production or processing of natural resources: oil, gas, wood, coal and others.

- Various collections of rare objects (for example, investments in wine and wine collections; investment in coins, stamps, badges and decorations).

Investments in tangible assets are not less diverse than in finance. This category may include any material value, which allows to generate profits or increase the value of its own and is not dependent on any changes in the stock market. However, due to relatively high labor intensity of direct investment for investor are more appropriate instruments for indirect investment. In particular, specialized mutual investment funds or general funds of bank management. Through these tools, allowing for indirect investment, it will be much easier to include tangible assets in the investment portfolio.

The third category of alternative investments is special types of securities. This category includes securities that are traded on the Alternative Investment Market (AIM). This marketplace, where shares of companies, divided into 32 main sectors. These are the types of assets such as biotechnology, natural resources, information technology and many others. AIM marketplace makes quite low requirements to issuer. In particular, he has the right to non-compliance with the minimum size of the market value of securities, but they must be in free float indefinitely. And basically the issuing companies will be of interest to investors, based on the prospects of development, rather than the history of a company. Of

course, these investments have a significant degree of risk. Such an investment would require a change in investor willingness to share risk

The fourth category is investments in human capital, which are total expenditures for health maintenance (restore), general education and technical and other activities contributing to raising productivity and quality of work.

Human capital represents capital in form of intellectual skills and practical skills obtained in the training process and practical activity of man. Economically, this is people's ability to participate in the production process [17].

Because of It can be concluded that four large enough category of alternative investments are a fairly extensive range of facilities for investment. And for the selection of the most appropriate option for accommodation in the investment portfolio, the investor will need to study and take into account all the main features and differences of each category.

Accordin Wikipedia, some of the characteristics of alternative investments may include [1]:

- Low *correlation* with traditional financial investments such as stocks and bonds;
- It may be difficult to determine the current market value of the asset;
- Alternative investments may be relatively illiquid (see "Liquid alts");
- Costs of purchase and sale may be relatively high;
- There may be limited historical risk and return data;
- A high degree of investment analysis may be required before buying

Main trends of global alternative investements markets. In Figure 1 is presented the dynamics of *international prices for an ounce of gold*.



Fig. 1. Dynamics of gold prices in the period from 1973 until August 2016

Source: [4].

As shown in the graph, indicated period general trend in gold price movement was growing. Thus, from 1973 until the month of August 2016 gold prices rose to \$ 1,254.60 / ounce or 1915.42%!

Investment attractiveness of gold makes up such indicators [16]:

1. The long-term value of precious metal, which he continues to hold on for hundreds of years.
2. High liquidity of precious metal, which is caused by the presence of investors in precious metal constant potential implementation of their existing stock asset. As a rule, industry analysts say about the possibility of the sale of gold within twenty-four hours at a bargain price.
3. Possible diversification of gold as an essential element of formation of a strong investment portfolio, which allows to increase the value and prospects of assets, ensure their safety and market stability.

Investing in diamonds also are interesting. Diamonds hold more value per milligram than any other traded element in the world.

In Figure 2 it is presented the change in the value of diamonds from 1960 to 2016.

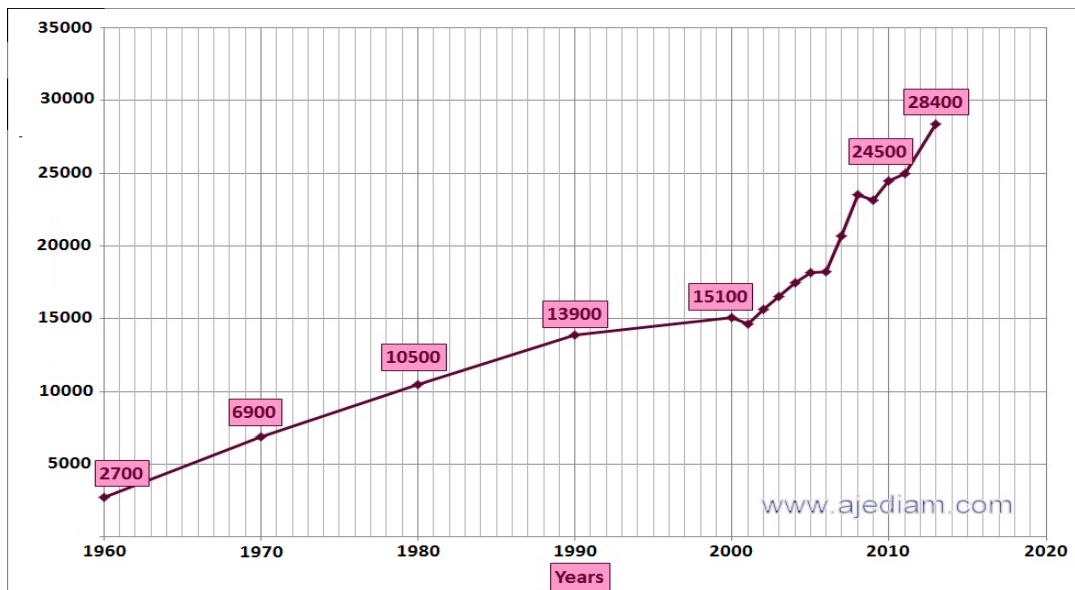


Fig. 2. Change in the value of one carat diamonds from 1960 to 2016 (USD)

Source: [3].

Examined trend shows an increase from 2700 USD to 28400, i.e. 25700 USD or 951.9%!

It should be noted some features of investing in diamonds [11]:

1. The history of diamonds has far more than one hundred years.
2. Diamonds are not suitable for short term investment. For income should be reserved patience for decades.
3. Diamonds, in addition to its investment value, are also very attractive aesthetic qualities.
4. High-quality diamonds are timeless. Precious diamonds have small dimensions therefore they are easy to move, store and display.
5. It is necessary to expertise diamonds, checking their authenticity, quality, to find out their real value.
6. Diamonds are illiquid investment vehicle. This means that care should be taken in advance of the sales channels.
7. There are several types of diamonds and each has its own dynamics of price growth.

Investing in wine is placing funds in bottled wines. International wine market are basic indexes form Liv-ex group, calculated based on trading stock results from London.

Liv-ex 1000 dynamics is shown in Figure 3.

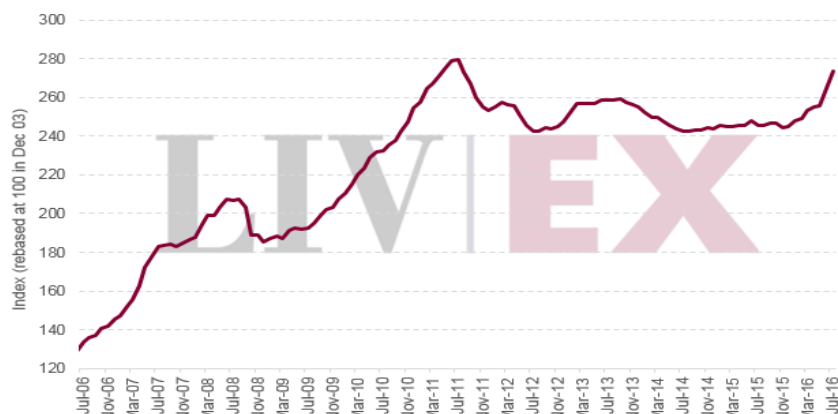


Fig. 3. Dynamics of index Liv-ex 1000 from July 2006 to July 2016

Source: [5].

Nominated graph resulting Liv-ex 1000 has a relatively low volatility and has a tendency to increase.

Investments in wine are long-term. According to experts, the payback period will be from 3 to 5 years. For 4 years the price of young wine could rise by 4 times, and in some instances – 10 [13].

For example, the starting price of a bottle of wine Chateau Margaux 1997 was initially \$65 and after 10 years its value has risen to \$1 thousand. Or, for example, the cost of a bottle Shateau Petrus 2006 for the past five years increased by 4 times. There are examples when buying wine harvest brought a certain owner of elite alcohol up to 400% profit after 15 years, but is considered a successful yield of 30-60%, this growth shows the wine well-known brands, such as Bordeaux: Chateau Mouton Rothschild, Chateau Latour, Chateau Lafite Rothschild, Chateau Haut-Brion. This marks the top division, which from year to year only gain in value [10].

Another important segment of the alternative investment market is *investment in works of art*. The global art market in 2014 earned more than €51 billion (\$ 53.9 billion). In addition, annual sales finally exceeded the pre-crisis maximum of €48 billion (\$51 billion.) made in 2007. Three countries dominated this market. In the United States accounted for 39% of global market, China's share – 22% and the UK – and 22%. UK market grew by 17% in 2014, and in conjunction with the US market, and together they were responsible for 62% of world imports of art and antiquities in 2013 [14].

In 2014 it was carried out nearly 180 art fairs around the world and 39 percent of them were held in the US, in Europe – 38% and Asia – 12%. At art fairs in 2014 works of art was transferred to the amount of € 9.8 bln. This number does not include sales made after the fairs. Also, in 2014, dealers have spent € 2,3 bln. to visit fairs.

Sites such as Art.com, Artspace.com and Gagosian.com organize online sales of works of art and antiques in the amount of approximately €3.3 billion, or 6 percent of total sales.

These investments, if are sound, can bring from 20% to 300% annually, depending on many factors [15]:

- Works of deceased artists usually are listed higher than those that are alive;
- Increased interest of mass media;
- Promoting works of art exhibitions;
- Procurement of works by museums;
- Investor collaboration with art galleries.

Real estate is nowadays traded globally and ever more cities are incorporated into global investment flows. The global volume of investment transactions decreased compared to the previous year by 3 per cent in 2015 – to \$689 billion. Experts expect an increase in volume of investments in global real estate market in 2016 to \$720-730 billion [19].

According to experts, the volume of direct investments in commercial real estate will increase in 2020 to \$1 trillion, which is due to the following factors [12]:

- increased control, including less use of debt financing and more – own funds, more stringent standards for assessing borrowers' solvency and greater scrutiny of investment committees;
- Appearance of new sources of capital, primarily in Asia and other emerging economies;
- Growth in volume of direct investment in real estate by institutional investors in developed markets due to low interest rates and the perfection of legal base;
- Growth of cross-border investments from South Korea, China, Taiwan and Malaysia caused by government attempts to reduce over-saturation of domestic market by moving capital abroad.

Conclusions. At the moment it can be seen the process of formation and development of a global market of alternative investments being distinct segments thereof. This market offers investment opportunities with high potential profitability and possibility of using them as shelter investment.

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