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Study Finds Alternatives Knowledge Scarce

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NEW YORK (HedgeWorld.com) — Most people don't know what alternative investments are and even those who are interested do not invest because they don't have enough information, according to a survey of mass affluent investors.

Rydex Investments, which offers hedge fund strategies and other alternatives in mutual fund form, surveyed 500 individuals, each with more than \$250,000 in investable assets. The study was done in conjunction with e-Rewards. Some 75% of those asked said they don't know what alternative investments are and more than 40% said they don't have access to information on this topic. Among those familiar with the concept, 63% said they don't invest in alternatives because they don't know enough about them.

"If you ask 10 people what alternatives are, you can get 10 different answers," said David Reilly, director of portfolio strategies at Rydex Investments, speaking at a press conference. Rydex recently launched a mutual fund that allocates to other mutual funds that use alternative strategies including real estate, currency arbitrage and commodities, as well as hedge fund strategies.

Mr. Reilly pointed out that hedge fund returns are overall less volatile than equity markets, yet **there is a widespread perception that hedge funds are especially risky. That may be because people notice hedge fund blowups in the press—the survey results show that about one-third of the investors learned about alternatives from magazine and newspaper articles.**

However, young people put more money into alternatives compared to older generations. Survey participants younger than 31 years of age had almost 30% of their portfolios in alternatives, compared to smaller percentages for age groups older than 31. Men were more likely to invest in alternatives than women. Portfolio diversification was the top reason for investing in alternatives, and real estate the most popular alternative investment among survey respondents.

While there are many real estate investment trusts, hedge fund-type vehicles may be harder to find for middle-class investors, despite the interest of long-only managers in offering such products. More than 90% of U.S. mutual funds do not have the ability to short sell, said Edward Egilinsky, managing director of alternative strategies at Rydex. The number of products has been growing in recent years but the long/short mutual fund sector is still in its infancy, he said. Mr. Reilly emphasized the knowledge problem. Educating investors is a huge challenge, he said.