Welcome to the World of Alternative Investments

The Trading Floor

James Cone is a financial services executive and investment professional with extensive experience in trading, investment management, alternative investments, and capital markets. Passionate about investor education, he is committed to sharing resources and helping financial professionals and their clients understand the opportunities, risks, and role of private market investments within diversified portfolios.

His career has spanned many of the world's leading financial centers, including Chicago, New York, London, and The Bahamas, where he has worked across both institutional and private wealth environments. He is a former member of the Chicago Board of Trade (CBOT) and the London International Financial Futures Exchange (LIFFE), experiences that have provided him with a unique global perspective on the evolution of financial markets and investment strategies.

Jim currently holds the FINRA Series 7 and Series 63 licenses, as well as the NFA Series 3 license. Through his writing and research, he seeks to make the often-complex world of alternative investments more accessible, enabling advisors and investors alike to make more informed and confident investment decisions.

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CONE / RAMIREZ The World of Alternative Investments: A Collection of Research & Resources

THE WORLD OF ALTERNATIVE INVESTMENTS

A Collection of Research & Resources

Private Equity
Growth
Venture Capital
Secondaries

Private Credit
Direct Lending
Distressed Debt
Special Situations

Real Assets
Real Estate
Infrastructure
Agriculture

Jim Cone

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Key Due Diligence Considerations

For financial advisors bound by a fiduciary duty, acting in the client's best interest goes beyond avoiding conflicts of interest—it also requires the duty of care. This means prudently evaluating whether an investment is suitable and fully understanding what is recommended. As alternative investments have become more accessible to retail investors—and more aggressively marketed to financial advisors—cutting through the marketing noise to evaluate each potential investment on its own merits has also become more difficult.

When conducting due diligence on alternative investments, there are several key considerations to keep in mind.

Manager Considerations: Strategy, Operations, Costs

At the manager level, the aim of the due diligence process is to decide whether a particular manager or fund is best suited to meet the client's investment goals. There are essentially three main prongs of the process:

1. The manager's investment strategy (both the underlying investment thesis and the manager's adherence to their stated strategy in practice)
2. The manager's operations (both of the fund itself and the overarching asset manager)
3. The costs (management fees, performance incentive fees, and any internal expenses such as borrowing and operational costs)

Investment Strategy

Understand and reflect on alignment with your investment goals and risk tolerance.

Track Record

Evaluate the track record of the investment manager or firm. Have they demonstrated consistent performance and expertise in the specific alternative investment?

Fees and Expenses

Assess the fees and expenses associated with the alternative investment. Are they reasonable and transparent?

Investment Structure

Examine the investment structure and terms. Is it fair and beneficial to investors?

- **Valuation:** Understand how the alternative investment is valued. Are the valuation methods robust and transparent?
- **Risk Management:** Evaluate the risk management practices of the investment manager or firm. How do they identify and mitigate risks?
- **Liquidity Exit Strategy:** Assess the exit strategy for the alternative investment. Is there a clear plan for exiting the investment and realizing returns?
- **Legal and Regulatory Compliance:** Ensure that the alternative investment complies with relevant laws and regulations. Are there any potential legal or regulatory risks?

Due Diligence Checklist

✅ Strategy and Asset Class Understanding
✅ Manager Track Record
✅ Risk Management Approach
✅ Fee Structure
✅ Liquidity Terms
✅ Transparency and Reporting

[IRR, Yield, & MOIC](#)
Which Metric Matters Most?

KITCES: A Framework for Due Diligence

Due Diligence Area	Considerations To Review
Client Considerations	**Liquidity** – Do the client's liquidity needs align with the requirements of the investment?
	Risk Capacity – Could the client afford a 100% loss in a worst-case scenario?
	Investment Goals – Would the client be able to achieve their goals using comparable public-market investments?
Investment Strategy	**Strategy Clarity** – Does the fund have clear investment objectives, an investment thesis or philosophy it believes will allow it to achieve its objectives, and a strategy to put its investment philosophy in practice?
	Manager Experience – Does the fund's manager have prior history managing other funds? Did those funds reliably achieve their investment objectives? Are there any red flags, such as regulatory enforcement actions, in the manager's history?
	Transparency – Will the fund manager provide position-level holdings and transaction data to allow for verification of the fund's NAV and stated performance?
	Performance Integrity – If the fund has prior performance history, does that history align with its stated investment strategy? Are there any signs of manipulated performance, such as few or no periods of negative returns?
Operations	**Third-Party Administration** – Does the fund use an independent third party for administrative services like accounting, NAV calculation, reconciliation, and performance reporting? Are those parties experienced and qualified to do the work they're engaged to do? Are there any red flags, such as affiliated business interests with the fund or its employees, or frequent changes of third-party administrators?
	Background Checks – Are there any regulatory or legal red flags in the background of the fund manager or its employees? Is the fund willing to provide the results of any SEC or FINRA examinations?
	On-site Interviews – Is the fund manager willing to accommodate an on-site visit to interview the manager and key personnel? Does the visit reveal any red flags, such as disorganization or commingling of investment and operations staff?
Fees/Costs	**Total Fees and Costs** – What is the fund's fee structure, including management and performance fees? Are management fees charged on committed or invested capital? If the fund uses leverage, are fees charged on gross assets (i.e., including borrowed funds) or only on assets contributed by investors?
	Incentive Fees – How are performance incentive fees structured? Is there a hurdle rate over which the incentive must kick in? Are there catch-up provisions that subject the entire return to the incentive fees after reaching the hurdle rate? Is the hurdle rate set at a level that will require real skill to achieve?
	Additional Costs – What additional costs could the client incur, such as feeder-fund fees, borrowing costs, or pass-through fees?

KITCES - 70,673 financial advisers stay up to date with the latest from the Nerd's Eye View.

12 Questions to Ask Every Sponsor About Their Company & Their "Growth" Product

This Due Diligence checklist is designed to guide investor discussions with sponsors of a **growth-orientated** investment offering. It provides a structured framework to evaluate sponsor background, growth thesis, execution plan, and risk management.

Sponsor Background & Alignment

1 □ What is your firm's experience and how have actual IRR results compared with projections?
2 □ How much of your own or affiliate capital is committed to this growth strategy?
3 □ How are you compensated (fees, carry, promote)? Does this structure align with long-term value creation for investors?

Growth Thesis & Execution

4 □ What are the primary levers of growth (market expansion, acquisitions, technology adoption, operational scaling)?
5 □ What milestones and measurable KPIs will you use to track success and progress?
6 □ What differentiates your growth approach from competitors (e.g., sector expertise, proprietary edge), and who are your peers?

Risk & Exit Strategy

7 □ What is the timeline and pace of deploying capital into opportunities?
8 □ What market, regulatory, or operational risks could hinder growth, and how do you mitigate them?
9 □ What are the planned exit options and time frame (IPO, recapitalization...), and what redemption, buyback, or secondary market options exist if one needs early liquidity?

Oversight & Transparency

10 □ How will you report on growth progress and performance to investors (frequency, detail, independent validation)?
11 □ Can you provide examples of past growth strategies that underperformed, and how you addressed them?
12 □ How do you ensure alignment of interests if growth takes longer or results differ from projections?

Notes:

12 Questions to Ask Every Sponsor About Their Company & Their "Income" Product

This Due Diligence checklist is designed to guide investor discussions with sponsors of an **income**-oriented investment offering. Use it to evaluate sponsor credibility, alignment, income stability, and risk management practices.

Sponsor Background & Alignment

1 □ What is your firm's performance history with prior income-oriented offerings (projections vs. actuals)?
2 □ How much of your own capital do you (and affiliates) have invested in this offering?
3 □ How are you compensated (fees, promotes, carried interest)? Do these align with delivering consistent income to investors?

Income Sources & Stability

4 □ What assets or activities directly generate the distributions (rents, loans, royalties, receivables, etc.)?
5 □ Who are the obligors/tenants/borrowers, what are their credit qualities or financial health and what collateral or guarantees back their obligations?
6 □ How diversified are the income streams by sector, geography, and counterparty?

Risk & Downside Protection

7 □ How would distributions be impacted under downside scenarios (vacancy, default, rate hikes, economic slowdown)?
8 □ What redemption, buyback, or secondary market options exist if I need early liquidity?
9 □ How do current conditions (interest rates, credit spreads, cap rates) affect your income projections?

Oversight & Transparency

10 □ What is your DCR ratio, and are distributions solely from cash flow, or is there any return of capital included?
11 □ What level of reporting, third-party audits of all and related entities, or independent verification do investors receive?
12 □ Have you experienced any delays, defaults, restructuring, or regulatory issues in prior income offerings?

Notes:

Benefits of alternative investments

1. Return enhancement

Investors can often be paid to take on illiquidity as well as access **less efficient parts of the market** through alternatives, which may drive higher returns than traditional investments.

2. Portfolio diversification

Alternatives can often access asset **classes that are not available through traditional markets**, increasing portfolio diversification.

3. Current yield

Alternatives such as **alternative credit** and **real assets** have the potential to deliver higher yields with lower volatility than their publicly traded counterparts.

4. Volatility mitigation

Alternatives often rely less on broad market trends and more on the **strength of each specific investment**. This **low correlation** to broad markets may decrease portfolio volatility.

5. Inflation protection

Some alternatives, including **real estate** and **agriculture**, have inflation hedging properties stemming from an ability to benefit from increasing prices.

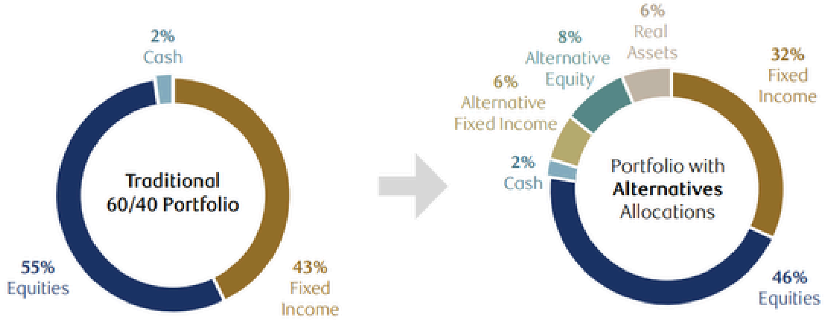
6. Tax benefits

Some structures used in alternatives strategies may offer **tax benefits**, including REITs and BDCs, as can certain **government programs**.

	Portfolio objective	Private equity	Private debt	Real assets	Hedge funds
1	Return enhancement	X	X		
2	Portfolio diversification	X	X	X	X
3	Current yield		X	X	
4	Volatility mitigation			X	X
5	Inflation protection			X	
6	Tax benefits	X		X	X

Adding alternatives to a portfolio has the potential to increase returns while lowering volatility. Actual allocations can be tailored to the specific objectives of each portfolio.

Long-term returns forecast (5 to 10 year horizon from 2024, before fees)



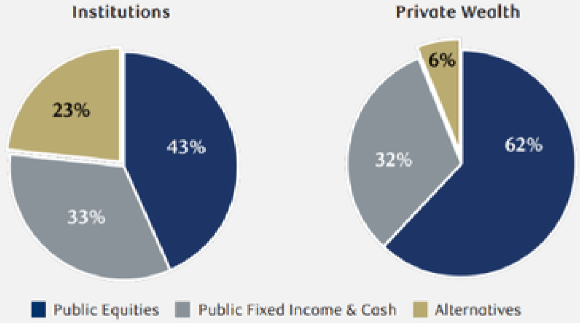
Expected* Return	6.4%
Expected Volatility	9.8%

Expected Return	6.6%
Expected Volatility	9.2%

The charts above are considered hypothetical, it is not based on actual client performance. This is for illustrative purposes only. Forecast returns is not a guarantee of future results.

Current asset class weights by investor type*

While private wealth investors have different liquidity needs and time horizons than institutions, investors in both groups have options available to them that can be appropriate and provide a number of benefits. Many of these products are newer, leaving some private wealth investors unaware of their options and therefore potentially under-allocated to this important part of the market.



Figures do not sum to 100% due to available detailed numerical data and rounding.

Source: RBC Wealth Management

Education & Free Courses

Gridline Education
Become an expert with this curated library covering private credit and venture capital, real estate, crypto and more.

Preqin Academy
- Introduction to Alternative Assets
- Why Invest in Alternatives
- The Past, Present, and Future of the Industry

Ray Dalio
- How the Economic Machine Works
- You Need to Pay Attention to the Bond Markets

CAIS
- An Introduction to Alternative Investments

iCapital
- What Are Alternative Investments?
- AltsEdge
- Fundamentals of Alternative Investments

→ Practical and easily accessible training on alternative investments.
→ Earn up to 10 CE credits and a Certificate in Alternative Investments from iCapital and CAIA.

Blackstone University
- Private Markets

→ Learn how assets such as private equity, credit, real estate, and infrastructure can fit into investment portfolios.
- Essentials of Private Markets
  Learn the basics of the major private asset classes.
- Why Private Markets?

KKR
- Private Equity Decoded:

→ An Asset Class Playbook
Understanding the Private Equity Industry

Golub Capital
Get to know the fundamentals of direct lending and private credit by exploring this series.
The Private Credit Mosaic:
- A Visual Guide to Private Credit
- A Superior Credit Allocation: Improved Returns, Risk & Income
- Private Credit vs. Traditional Fixed Income: Cutting through the Jargon

Chicago Atlantic
- 12 Specific Questions for Evaluating Private Credit Funds

Your Guide to Roth Conversions
- Why Should You Consider a Roth Conversion? S2K
  Understand how Roth IRA conversions work, potential advantages, and key factors to consider.
- Should I Convert to a Roth IRA? S2K
  Use this checklist to better understand if a real estate Roth IRA conversion is a fit for your financial strategy
- Learn How to Convert a Roth IRA Charles Schwab
- 6 Tax Reasons to Convert Your IRA to a Roth (and When You Shouldn't) Kiplinger

Calculators
- Portfolios Lab
  A collection of best-in-class portfolios
- Portfolio Visualizer
  Top 10 Constructed Portfolios
- Portfolio Charts
  Tracking the most common portfolios
- The Alts Allocator
  Brookfield
  Beyond the 60/40 portfolio

Research & Resources

Brookfield | Oaktree
- The Alts Allocator

Equity Trust Company
- What Are Alternative Investments? The Ultimate Guide [Video]

KKR
- Private Equity Decoded: An Asset Class Playbook

iCapital
- What Are Alternative Investments? [Video]
- Introduction to Alternative Investments [PDF]

ADISA
- Guide to Alternative Investments [PDF]
- RIA's Guide to Alternative Investments [PDF]

Fidelity
- Alternative Investments and Their Roles in Multi-Asset Class Portfolios [PDF]
- A study of allocations to alternative investments by institutions and financial advisors [PDF]

RBC Wealth Management
- Introduction to Alternative Investments [PDF]

KITCES
- Alternative Investment Due Diligence For RIAs: A Framework For Compliantly Evaluating Private Funds

Securities Lawyer 101
- Overview of Regulation D, Rule 506(b)
- Rule 506(c) and other Capital-Raising Exemptions

Preqin Academy
- What are alternative assets?

J.P. Morgan Asset Management
- Know Your Alternatives [PDF]

CAIA
- Investing Like the Harvard and Yale Endowment Funds [PDF]

Kiplinger
- How Alternatives Could Inject Stability and Growth Into Your Portfolio
  Alison Nest, Morgan Stanley

Daniel Goodwin,
Chief Investment Strategist
Provident 1031
- Live Smart, Retire Rich: Smarter Ways to Become Wealthy

Brian Raleigh,
President and Founder
- Raleigh Wealth Solutions
  Rounding Third and Heading for Home: How to Hit a Home Run in Retirement Using Tax and Income Strategies of the Wealthy

Cantor Fitzgerald
- 1031 Exchanges and Delaware Statutory Trusts [PDF]

IPX 1031
- 1031 Exchange Topics [PDF]
- What Every Exchanger Needs to Know [PDF]

Real Estate

A tax-deferred approach to selling your real estate investments - Cantor Fitzgerald
1031 Exchanges and Delaware Statutory Trusts

1031 Exchange Topics and Reference Guide - IPX

How Savvy Investors Use A 1031 Exchange To Defer Capital Gains and Build Wealth

Comparing Tax-Deferral Real Estate Investment Strategies - S2K

The presentation above explores three popular tax-deferral strategies.
1031 Exchange, Delaware Statutory Trust (DST), and Qualified Opportunity Zone Fund (QOZ).

By choosing the right strategy and understanding the nuances of each, you can make an informed decision for your real estate portfolio.
Delaware Statutory Trusts (DSTs) - S2K

The role of cap rates in real estate
J.P. Morgan

Capitalization Rate: Cap Rate Defined With Formula and Examples

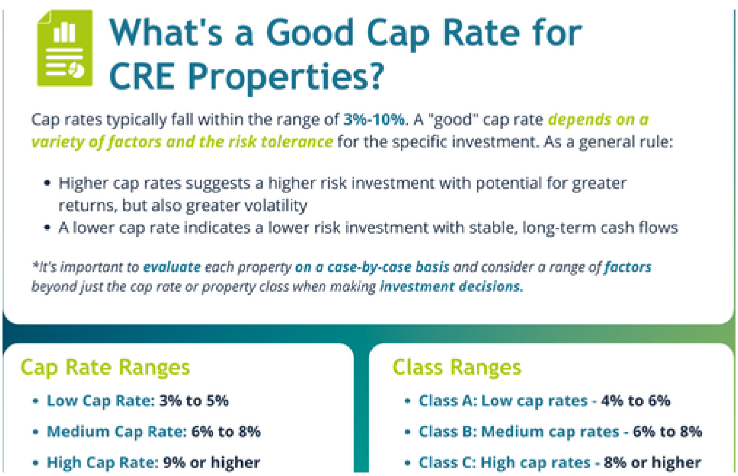
A Compelling Case for Why Property Investing Reigns Supreme
Many decades of investment data show real estate's superior risk-adjusted returns and unprecedented tax advantages through strategies like 1031 exchanges and opportunity zones.

Five Strategies to Defer Capital Gains in Real Estate Investing
These powerful strategies, from timing your sales during low-income years to leveraging qualified opportunity zones, can defer capital gains taxes on your real estate investments.

Internal rate of return is a useful metric for assessing real estate properties' returns over time and comparing investment opportunities.

Cap Rates 101: Why They Matter in Real Estate Investments

Capitalization rates are one of the most important metrics for evaluating the potential return on investment in real estate. Cap rates represent the relationship between a property's net operating income (NOI) and its market value. By calculating the cap rate, investors can quickly assess the profitability of a potential investment and compare it to other properties in the same market.



2026 Tax Mitigation Strategies

Tax Code Possible Benefit	Strategy	What This Means For You
IRC SEC 1302 IRA Conversion tax reduction	Valuation Discounts 9 questions to answer	Cut "Roth conversion" taxes by 50% > by investing in real estate/energy in your IRA.
IRC SEC 263A Shelter Ordinary Income	Intangible Drilling Costs	Invest in oil/gas and get a ~85-90% deduction on income through IDC Tax Credits. $100K investment = Approx. $85K write-off.
FIRC SEC 1400Z-1 Shelter Capital Gains	OZ's 2027 New Rules 1031 and DST's 1031 vs. OZ ?	Offset major capital gains and create future tax-favored income. Can be done within 180 days of sale. OZ's Old rules vs. New rules.
IRC SEC 167 & 168 **See:** OBBB Business Income Tax Shelter	Cost Segregation *and* Bonus Depreciation	Defer taxes, increase immediate cash flow, and accelerate depreciation on commercial real estate reducing current tax liability.
IRC SEC 26 401A Shelter Ordinary Income	Cash Balance Plans	Allows business owners to make large, tax-deductible contributions while creating their own pension plan. Possibly shelter $100 - $300,000 of income from taxes.
IRC SEC 453 Defer taxes	Deferred Sales Trust	Defer capital gains taxes when selling highly appreciated businesses and assets.
IRC § 7702 LT Tax Free Estate Planning	Private Placement Life Insurance (PPLI)	Tax-Free Growth & Inheritance Distributions.
IRC SEC 831A & 831B Shelter Income. Premiums paid are deductible.	Captive Insurance	Reduce taxes while creating a better risk management strategy for business owners
IRC SEC 170A Shelter Ordinary Income	Fee Simple Conservation Easement (CE) Land Donation: Introductory Video	Invest in land, and if donation option is chosen, there is potential for leveraged charitable deduction tax credits to shelter ordinary Income. Limited to 30% AGI.
IRC SEC 48E	Solar Tax Credits 2027 Changes	Potential dollar-for-dollar reduction of your federal tax liability. 3rd party introduction video.

Advisor - Client Guide to Private Markets

Advisor Talking Points: How to talk to your clients

1. Alternatives are designed to complement—not replace—stocks and bonds.
2. Diversification does not ensure a profit or protect against loss.
3. Many alternative investments are illiquid and require longer holding periods.
4. Allocations should be sized appropriately based on client objectives, risk tolerance and future liquidity requirements.
5. Alternative investments may not be suitable for all investors.

Why Investors Consider Alternatives as Diversification

- May reduce reliance on public stock and bond markets.
- Different return drivers than traditional investments.
- Alternatives can potentially contribute to reducing portfolio volatility.

Access

- Exposure to opportunities not available in public markets.
- Participation in private companies, assets, or unique diversifying income strategies.

Portfolio Balance

- Some alternatives emphasize long-term growth, income, or asset backing.
- Can complement traditional growth and income allocations.
- Can introduce beneficial tax-mitigation strategies.

Institutional Approach

- Long used by pensions, endowments, and family offices.
- Increasingly available to individual investors through advisors.

Client FAQs on Alternative Investments: How to talk to your advisor

What are Alternative Investments?

- Alternative investments are investments outside of traditional stocks and bonds. They may include private markets, real assets, or specialized investment strategies.

Why Might Alternatives Be Included in a Portfolio?

- Alternatives may help diversify portfolios and provide exposure to different return drivers than traditional investments.

Are Alternative Investments Risk-free?

- No. All investments involve risk, including the potential loss of principal.

Are Alternative Investments Liquid?

- Many alternatives have limited liquidity and may restrict withdrawals for extended periods.

Are Alternatives Appropriate for Every Investor?

- No. Suitability depends on factors such as financial situation, investment objectives, risk tolerance, and time horizons.

Disclosures & Disclaimers

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Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk. Nothing in this content should be considered to be legal or tax advice, and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision.

Risks

Stock markets are volatile and can fluctuate significantly in response to company industry, political, regulatory, market, or economic developments. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets. These risks are particularly significant for investments that focus on a single country or region. Investing involves risk, including risk of loss.

Alternative investment strategies may not be suitable for all investors and are not intended to be a complete investment program. Alternatives may be relatively illiquid; it may be difficult to determine the current market value of the asset; and there may be limited historical risk and return data. Costs of purchase may be relatively high. A high degree of investment analysis may be required before investing.

Investing in digital assets, such as bitcoin, is speculative and may involve a high degree of risk. Digital assets can become illiquid at any time and are only for investors willing to risk losing some or all their investment and who have the experience and ability to evaluate the risks and merits of an investment in bitcoin.

Important Disclosures

Alternative investments involve substantial risk and may not be suitable for all investors. These investments are often illiquid, may require long-term commitments, and may involve complex structures.

Past performance is not indicative of future results. Diversification does not guarantee profits or protect against losses. There can be no assurance that investment objectives will be achieved. Investors should carefully consider all risks, fees, and expenses associated with an investment and consult with their financial, legal, and tax advisors prior to investing.

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