



## FEATURE ARTICLE

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### **Should I Invest in Esoteric Investments?**

I strongly believe that for appropriate clients an allocation to what may be termed “esoteric” investment opportunities, as part of an alternative investment asset allocation, might be appropriate in certain circumstances and should be considered on a case by case basis.

In terms of potential esoteric investment opportunities there are certainly a number to choose from and the first potential investment opportunity that I would like to highlight are Exchange Traded Funds and in particular Exchange Traded Commodities (ETCs). ETCs are simple and transparent open-ended securities which trade on regulated exchanges. ETCs enable investors to gain exposure to commodities without trading futures or taking physical delivery.

ETCs currently listed on the LSE come in two broad categories. First there are single commodity ETCs where investors can gain exposure to gold or oil or there are more exotic variants such as for example zinc and even lean hogs. Alternatively investors can invest in index tracking ETCs giving exposure to a range of commodities in one investment. In this category current offerings include broad indices such as “all commodities” to specific sub-indices such as agriculture or livestock.

From an investment perspective the benefits of commodities investment are well known: they bring balance to a portfolio, can be used as an inflation hedge, historically have low correlation to equities and bonds which, according to modern portfolio theory, should result in reduced risk without necessarily reducing returns.

I would add that it is critical that an investor and indeed an adviser fully understand how an ETC works before they invest and how the return is generated but I do believe that ETCs are a valuable investment tool for certain clients.



Another “esoteric” investment which has been gaining greater coverage lately are US life settlement policies. In essence these are effectively lifetime policies where the insured, for various reasons, wants a lump sum now and rather than sell the policy back to the insurance company sells the policy on the open market, gaining a value higher than that offered by the insurance company for surrender.

When comparing these policies to the Traded Endowment Policy (TEP) market in the UK the main difference is that US life assurance policies generally mature on the death of the life assured and so there is an element of uncertainty over mortality assumptions while TEPs have a known maturity date, although the capital is paid earlier if the policyholder dies before this date. US life settlement policies however have an advantage over TEPs, where the final payout depends on a range of factors such as the financial strength of the insurance company, in that they have a known value at maturity.

There are various investment structures available that allow access to US life settlement policies and there is no doubt that these offer a non-correlated asset class to assets such as equities, property and bonds.

When considering an investment into US life settlement policies various risks should be considered and these include currency risk, as the policies are denominated in US\$, whether the investment “wrapper” is regulated or non regulated and the strength of the actuarial model used in forecasting expected returns.

Finally in this short article a good example of a truly “esoteric” investment opportunity is the Avarae Global Coins Fund, which is listed on AiM and is the UK’s only publicly traded investment company dedicated to investing in rare and high quality coins.

Like philately, numismatics (as the collection and study of money and coins in particular is known) is a hobby enjoyed by many thousands of enthusiasts and for those who have made wise investments and are prepared to invest for the long term the potential financial rewards are compelling.

The Avarae Global Coins Fund was admitted to AiM on 24 May 2006 and on 29 June 2006 the company purchased a rare and antique coin known as “The Edward III Gold Double Florin” or “Double Leopard”. This coin is thought to be one of only three known specimens in the world and the only one in private hands. (The other two coins were bought by The British Museum in 1857 and 1868.) Avarae paid £400,000 for the Double Leopard, which was described by experts as a “magnificent coin of the very highest importance and excessively rare”. Certainly one to tuck away!

Since then various purchases have been made including in January 2008 385 high grade gold coins issued between 1870 and 1917 from Japan’s Ministry of Finance. It is interesting to note that in this



instance the deal was struck when the Yen was trading at 240 to the pound (as I write this article the Yen is trading around 150).

In conclusion I believe that when putting a portfolio together for a client it is important to not necessarily just consider the “standard” investment areas. It may be appropriate to have an asset allocation to what may be broadly termed “alternative assets” and within this it may be appropriate to add some “esoteric” investments to the mix.

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