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Page Title: Key Considerations for Not-for-Profit Organizations Exploring Alternative Investments | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] discusses the ins and outs of alternative investments and provides insights on evaluating them for nonprofit organizations (NPOs) seeking portfolio diversification.

Headline: Key Considerations for Not-for-Profit Organizations Exploring Alternative Investments

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More investment opportunities are available today than at almost any time in history. Traditional forms of investing, such as stocks, bonds and cash, can be an excellent way to bring in returns, but they are far from the only way. Many alternative forms of investing can also be quite lucrative. Alternative investments require careful research, especially for nonprofit organizations (NPOs) that want to diversify their portfolios. This article will discuss some forms of alternative investments, along with steps that NPOs should take to evaluate whether a particular investment is worth the risk.

What is an "alternative investment"?

The term "alternative investment" refers rather broadly to alternatives to traditional investment forms like corporate stocks, corporate and government bonds and cash. Alternative investments tend to have fewer regulations from agencies like the Securities and Exchange Commission (SEC). This can be both a blessing and a curse. Investors can be more flexible in their approach to investing, but they must also perform greater due diligence. Some types of alternative investments are only available to "institutional investors," such as pension funds or insurance companies.

Liquidity may be an issue with many alternative investments. Selling several thousand shares of a well-known corporation's stock is often much easier and faster than selling a collectible item or a parcel of real estate.

The following are examples of alternative investments:

Hedge funds

The term "hedge fund" can refer to a variety of investment funds with professional managers. Investments usually come from institutional investors or high-net-worth individuals. The managers may use a wide range of nontraditional investment strategies.

The term "hedge" comes from a common tactic that involves investing assets in both directions to offset any potential losses. A hedge fund might invest in a stock that its managers believe is about to skyrocket in value, while also investing in shorting the same stock. Not all hedge funds use this strategy, but the name has stuck.

Private equity funds

A private equity fund typically consists of shares in private or public businesses. A fund might buy shares in a variety of businesses in order to keep diversified holdings. It might also buy companies in their entirety in order to overhaul them or, in some cases, shut them down. The fund makes a profit when it sells the reformed business or the components of the dismantled business.

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Real estate investment trusts

A real estate investment trust (REIT) is a business entity that invests in real estate. Investors own a portion of the REIT rather than owning any part of the real property in their own names. This helps shield investors from liability related to the property.

Peer-to-peer lending

Peer-to-peer lending (P2P) is somewhat similar to "crowdfunding." People use online portals to seek loans from other users, which they repay through the portal. P2P potentially offers a better return than a traditional savings account or certificate of deposit.

Collectibles

Collectibles might be one of the oldest types of investments, but they are still considered "alternative" because of the uncertainty of a return. A "collectible" is any item that has value because of factors like uniqueness, rarity or notability. This could include art, antiques, coins, stamps, comic books or unopened wine bottles.

Investing in collectibles can be risky because of its unpredictability. It is almost impossible to know if a market for a seemingly collectible item will exist in a few years. Examples of collectible investments that did not pay off as well as expected include comic books and Beanie Babies.

Another factor to consider with collectibles is storage. If you invest in wine as a collectible, for example, you need a wine cellar to keep your investment in saleable condition.

Virtual assets

Cryptocurrency and non-fungible tokens (NFTs) are perhaps the newest forms of alternative investment. Markets for virtual assets have been highly volatile, with very high highs and extremely low lows.

How can nonprofits best evaluate alternative investments?

A comparative lack of regulation makes many alternative investments highly risky. An emphasis on due diligence is essential.

Carefully review all investment documents and information

It is almost impossible to ask too many questions of someone managing an alternative investment:

- What are the underlying assets?
- How will these assets generate revenue?
- How liquid is the investment?
- How and when will investors get paid?

Consider how similar investments have performed

Not every alternative investment comes with a prospectus or financial statement. You may need to look at past performance to evaluate those investments.

Keep a diversified portfolio

However good an investment might seem, keep your organization's portfolio diverse.

Consider all risks that your organization may face

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NPOs may face different risks than other types of investors. Aside from losing money on a deal, NPOs might suffer damage to their reputations for certain types of investments.

Consider tax implications

Alternative investments often use rather creative business structures that could affect an NPO's taxes. Investing in a fund set up as a general partnership, for example, is different from investing in stocks.

Consider fiduciary duties

NPO leaders have fiduciary duties to the organization and its members. This includes managing the organization's assets responsibly and furthering the organization's mission.

Learn more about nonprofit investment options

A wide array of investment opportunities are possible for NPOs, but they require careful research and cautious preparation. NPO leaders must perform due diligence and keep their fiduciary duties in mind.

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If you have any questions or would like additional information, please contact [NAME] in our [DEPARTMENT] at [NUMBER] or [EMAIL].

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