

Investment education is key says CAIA head

The Chartered Alternative Investment Analyst Association (CAIA) has gone from strength to strength in the alternative investment education arena since its launch in 2002. William Kelly (*pictured*), CAIA CEO declares to HedgeWeek that, while it's been an interesting run, the value proposition of alternatives is alive and well.

CAIA defines alternatives as hedge funds; private equity; structured product; real assets and infrastructure. "I see alternatives as solutions rather than products," he says. "And they are widely misunderstood."

Post the global financial crisis, Kelly observes that the G4 central banks of the US, Europe, the UK and Japan have poured over USD20 trillion of liquidity into their economies. "This has forced asset values up to high levels and this won't go on forever," he says. "Investors should be thinking about diversification because the biggest risk is a catastrophic drawdown."

"Most investors don't understand the base level value proposition. They want 100 per cent of the upside and none of the downside and life does not work like this."

Kelly believes that a good job has been done in democratising the investment industry with an offering of 10,000 hedge funds offering; 7,000 ETFs and 5,000 investable indices around the world.

"There is a lot of choice and if you look at the growth of hedge funds, they are no longer an asset class – they have become an industry. And if you look at the dispersion of performance results from top to bottom, they are separated by thousands of basis points. And average hedge fund returns are starting to correlate with equity markets."

The fees charged on hedge funds are constantly in the news. Kelly says: "If you can find a true alpha engine you don't need to worry about fees. But you should not be paying 2 and 20 for finding leveraged beta."

Over his four years of tenure, Kelly has seen a raft of new regulation in the investment industry.

"I think it's been a mixed bag," he says. "There is lots of conversation on the fiduciary rules but it seems bizarre to me that in 2018 we are still debating whether we should be acting in the client's best interests."

He also points out that a lot of new product is meant to be long term and questions the practice of putting them in daily priced wrappers.

"They are highly regulated and transparent but the regulators and the industry have to figure out how to do a better job with education. Education does not necessarily mean more regulation because if you take more regulation to the extreme you push the investor to the risk free rate," Kelly says.

"If you look at the growth in liquid alternatives, the vast majority of it happened just after the Global Financial Crisis (2009 through 2012) and now it's flattening at a time where diversification is even more of an imperative. It's almost equivalent to buying home insurance after your house has burned down or dropping it when you may need it the most," Kelly says. "Investors should be thinking about diversification constantly. There is a lot of work to be done, which is good news. This job is never done – it's like painting a bridge."