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3 Alternative Investments Ultra Wealthy Investors Love

You know about stocks, bonds and property. Have you heard of alternative investments of the super wealthy? Salena Kulkarni reveals three of them here.

Salena Kulkarni

James: James Schramko here. Welcome back to SuperFastBusiness.com. This is episode 909. And today, we're talking about alternative investments to build your wealth. Welcome back, Salena. It's great to have you on the show again.

Salena: Thanks for having me back. James. It's great to be here.

James: You've been here before, and we've been just sort of talking about this topic of, look, it's great to have a business, and you get into the business for freedom and you want to grow your income. But then, do you do something effective with it? Of course, we're going to pay a lot of tax along the way. And then hopefully, we get to keep a profit and do something with that profit and put our money to work.

We've talked about that in previous episodes. If I were to put it in a sentence or two, this is what I've extracted from our conversations back and forth and having had a look at what you're doing with your private clients, because you're a wealth coach.

The investment that's like an instant business

And that is, if you were to put aside some money that's sitting around, whether that's pulling some equity from a lazy property, or some cash that are just sitting in the bank virtually no interest or very low interest rate, if it's in an offset account, if you were to put some of that into alternative investments, initially, and then if you were to continue to contribute to that, you might be earning something like 12 percent per year interest, and now you're going to start generating a positive cash flow from that investment that is completely independent of your business, that one day, if you don't want to work, or if you sell your business, then this nest egg can actually fund your lifestyle and create a surplus. Is that about the summary of it?

Salena: Yeah, look, I love the way you've put that. Yeah, I mean, lay terms, that's exactly what it is. Alternative investments really appeal to business owners and entrepreneurs, because they get it. It's like an instant business. I think most business owners, you know, not yawn, but they don't like the idea of wealth creation, in general, because it's so slow.

And what alternative investments are about is, it's just alternative meaning outside of mainstream. But these are deals and strategies, which are structured in a way predominantly to deliver predictable, sustainable cash flow. It's almost like a different beast to what most people understand as the 45-year retirement plan of socking money away and hoping it's enough down the track.

James: Yeah, so in other words, and I think this was one slide in one of the presentations I saw inside your own membership, most people are going to take 25, or they're planning to take 25 or 30 years to pay off their home mortgage, which of course, there's inflation and everything else going on, and then they will actually have to sell that and get a smaller place to release some of the money to be actually able to afford their life.

What kind of risk are we looking at?

I saw a Grant Cardone Instagram thing on the internet. So it has to be true that in America, there's like, 150 million businesses, and only one percent of them make enough to actually retire and live with their means without having to compromise. There's also people would argue that there's the potential that there may not be government benefits for us in 30 or 40 years' time, like I've seen what kind of change is possible in just two years on the planet.

In the last two years we've experienced, or in the last, if you say last three years, we've seen a tumultuous election in the world's largest and most powerful country, well, used to be, probably, because maybe some other country is more powerful now. We've seen a pandemic, we've seen a complete reset and shift of tech stocks and things.

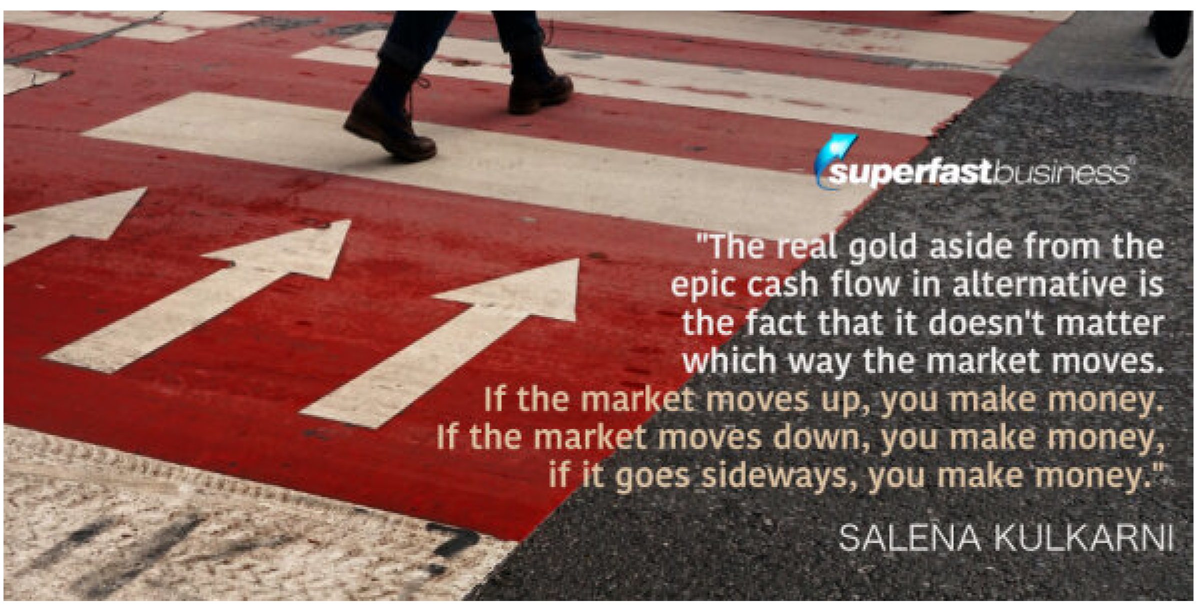
We've seen housing markets racing, we've seen this really interesting scenario of low interest rates, there is cancel culture in the online space that certainly affected a lot of people. There is a crazy maneuver by some of the tech giants where they're kind of hemmed into a corner and don't necessarily have a way out.

So there's a lot of instability going on. And it's quite possible that what we thought was the norm or the standard is not likely to be there in the future. That's the outcome I get. And I think the more we can control, the better. So these are the questions that come up.

If I go off to my accountant, and I say, Hey, mister accountant. I've been speaking to Salena, and she's talking about alternative investments. He's going to ask these sort of questions. What's the risk profile on it? Is it high risk, mid risk or low risk of that sort of return?

Salena: Great question. And it's interesting. I've just literally recorded a podcast on that exact topic. And I'm arguing that traditional real estate investing is in fact higher risk than what I talk about in alternatives, and there's reasons for that. But in a nutshell, when you go out and you purchase a traditional property, what you are doing is speculating on the fact that it will grow in the future.

Cash flow is rubbish, and we know that. So all of these business owners that I speak to, they're trying to do the right thing, they're trying to put one foot in front of the other and build some net worth through property, because we all know that property is a great vehicle for building capital. But ultimately, when you buy a property, what you're doing is speculating that the market will continue to rise.



So the enemy of a typical property investor is someone who enters the market when it moves sideways, or goes down. The real gold aside from the epic cash flow in alternative is the fact that it doesn't matter which way the market moves. If the market moves up, you make money. If the market moves down, you make money, if it goes sideways, you make money.

And so from a risk perspective, and don't get me wrong, alternative investing is a very broad term. At one end of the spectrum, you've got all your crazy things like venture capital, and all that sort of really hair-raising stuff. And at the other end of the alternative investing spectrum, you've got assets and strategies backed by real property.

And that's the end that I stick with, it's really dull, but lucrative, and you know, volatility and economic uncertainty doesn't affect that place as much as that does a lot of other real estate asset classes. And that's why I love it.

So who's doing alternative investments?

James: The next question might be like, who's participating this? Now with property, like almost all adults, at some point, participate in property investments in some form, like they either buy a unit or a house or whatever. Like, especially in Australia, property is considered the standard, like you could go to any barbecue or dinner table discussion, and they'll be talking about properties at some point in the cycle.

I noticed actually on the news, they're giving free parking in the city, people are not going back to work. I'd be worried about commercial property holdings in very big cities at the moment, because there's a shift in the economy of people working from home now as a result of the pandemic.

So who's participating in this? Is this available to everyone? Or is it a smaller community? And you talk about inefficient markets, I think, is sort of the label that this might have come under when I was reading about it in your membership?

Salena: Yeah, look, there's a couple of points in there. But I definitely think the average business owner is indoctrinated into thinking that they're part of this matrix, and that they've got to take this really slow, long path to retirement. And so many business owners see their business vehicle as a way of speeding that up. Unfortunately, that often doesn't happen.

But in terms of who these alternative investments are available to, they've always existed, they exist here, they exist in the States, they exist all over the world. The challenge is that there is a whole industry which doesn't profit or can't profit from those styles of investment. So all of the literature and education and common wisdom doesn't support this style of investing.

And as you pointed out, the reason that the returns are so lucrative is because it's in a very inefficient space in the market. And so traditionally, it has been the playground of probably higher net worth individuals, and they're not terribly keen to share that information with the world at large. So they've probably been pretty happy about the fact that traditional financial planning, traditional wealth building, doesn't talk about it at all.

James: Gosh, you know, it seems like a parallel to the health industry. There's not much money in telling people to drink water and to exercise and just eat whole food or whatever. Much more money in additives and supplements and treatments and so forth. Like, that's where all the big money is. So that's where all the attention goes.

These are the kind of investments we're talking about

So probably a massive question, and this is something we've probably been skirting around, and I want to just hit it head on.

Salena: Please.

James: Can you give me some examples of an alternative investment? Like, what are we actually investing in? Let's say I say, Salena, here's half a million dollars. What do we do with it? We're not buying a house by the sound of it, and we're not sticking it on blue chip shares. So we're doing something else. What is this something else?

Salena: So one of the things I'm a huge advocate of is, with any lump of capital like that, you want to carve it into multiple buckets. There are five broad strategies in alternative, you've got small private funds, and that's where many investors will come together with a dealmaker, I'll call them. Someone who basically puts the fund together, and they will invest into many assets. It could be single-family housing, it could be multifamily, it could be commercial.

But there's a purpose and a mandate of the fund. It could be a lending. It could be a lending debt fund. It could be an equity fund. It could be all sorts of different permutations. But every fund will have its own purpose. And so you go into all the different funds on that basis. Then you've got second bucket, which is syndications. And that's where again, separate investors come together with a dealmaker, and you're purchasing one asset. That's the difference between the two.

James: That's like when I was 12, two of my friends and I after school purchased a Volkswagen Beetle, I was 12 or 13. After school, we paid $100 for it, it was a three-way deal. So it's $33 each. We renovated it, we drove it around for the next five or six years on my friend's farm. And then in the end, we sold it for about $500. So I guess that's an alternative investment strategy.

Salena: Totally. I mean, if more kids could do that kind of thing, that'd be fun. But yeah, syndication is, you know, again, there's all different types of syndications. You can have residential townhouses, you could have apartment complexes, commercial. There's all different ways of doing, you know….

James: That's kind of like sharing in an investment.

Salena: Totally, with an active plan.

James: Yeah. So the active plan part, I imagine there's some intelligence, and some market knowledge and someone putting that together might have experience or specialty or a way of navigating around the average person in the market. I guess it's like dealing with a, you know, say if you're buying a house, and if you employ the property buyer. They're experienced with that, and that's what they do, and they'll charge you a fee, and hopefully win it for you.

Salena: Yeah, these deal makers have a very narrowed, deep focus in one particular style of investment.

James: Which as an individual, the syndicate members are unlikely to achieve that level of expertise in a lifetime.

Salena: Absolutely. Correct, yeah. And then the third bucket is joint ventures. And that's where you partner with an experienced dealmaker with a track record, and you kind of do deals together. So an example of this is, I might stick 20,000 into a lending deal with a partner. I get paid 10 percent interest per annum, it's a two-year loan. But at the end of the deal, I'll get a 10 percent profit share of the deal.

So overall, my return might be 15 to 19 percent overall, and there's generally small deals where you partner. And what's awesome about that is you get to ride the coattails of someone who has, as you said, a long track record, who knows the market, they deal with the tenants and toilets, I don't deal with anything, and I just get paid my money. So again, I'm pretty happy.

Why not just borrow from the bank?

James: And why do they take partners? Like, why don't they just borrow the money from a bank at three percent?

Salena: Such a great question. And, you know, I've actually asked that of all of my trusted advisors, because they're all independently wealthy, they don't need the money. And the truth of the matter is, there's more capital in the world looking for a home than there are good deals. But you talk to these guys, and talk to anyone who's financially independent, at some point, you go, Well, sitting around and surfing or playing golf all day, every day, starts to wear a bit thin.

And so these guys really are ethically just, they love the game of investing. It becomes a game. It's like, what kind of deals, what kind of volume, but it's less about the money for them and more about impact for others, which sounds really corny. But yeah, I don't think, I mean, these guys, another mil, another whatever, it doesn't make any difference. So you talk to them, they're all about, how do I be of service?

James: Yeah. And how do we get to talk to them?

Salena: Well, the interesting thing is, I've really done the hard yards. I started investing in these sorts of deals in '09. And I've jetted all over the world and made multiple trips. Even when my kids were really little, I'd duck out for a three-day trip and come back, and I've ratcheted my way up into better and better networks. I've had doors that were previously closed opened for me.

Weighing the options

So what I say now is if you want to bypass the headache, then I can help. If you want to learn about it for yourself, I can help. But I just feel like there's just this whole way of investing, which is a massive paradigm shift from what people understand right now, which is that you've just got to buy an asset and just sit and wait, and one day, that drip of income will turn into a trickle.

And I just think that it's a redundant way of investing, and with the market, as you pointed out, being as volatile as it is, we're moving into this period of high uncertainty. And spending two million bucks on an average property and hoping that it continues to go up, or spending half a million on an average property and hoping it goes up, you know, you can't be guaranteed that you'll get the outcome you want.

James: You know, on the other side of it, and it's probably worth mentioning, because in our communities, this is happening. At the time of recording, there's chaos happening in the crypto Bitcoin blockchain space. And I've seen a lot of my peer group, I'm going to say, I'll be kind, I'll say they've diverted all of their attention to that space. And my concern for them is that the rug will be pulled on them.

Some of my friends who feel like they have done a lot of research on this feel that some of the things will survive, but a lot of it won't. It'll be like a tech wreck, or the dot com bust. So that's where people are going for the really big quick win. And they're seeing it in some cases, like I even experienced that myself.

I'm going to share with you something that happened. I put in an amount of capital. And then it basically, what did it do, like 500 percent increases within months, it was unbelievable. And every fiber in my body is saying, this is not something that I would go and remortgage my home for to put equity into, like this is something I would fully expect to disappear. And of course, it moves up and down. And I'm seeing a lot of people get distracted by this.

So basically, on the two extremes, we've got the slow, old, traditional way that is still risky. We've got the fast, hyper risky, massive gains, massive losses, and I do know someone who lost several million dollars recently, betting the wrong way on a margin call on an alternative blockchain currency. So I've seen people get wrecked already.

A couple of daring questions

I guess, you know, I am not a financial adviser, or whatever. But the reason we do these shows is to start educating business owners. This is our message, right? The message is, and I'm doing this myself, so that's like, here's two questions that are pretty daring, I'll ask them anyway.

Salena: Please.

James: One is, you said something interesting to me the other day, you said back when you had a mortgage, would you say that you're independently wealthy, Salena?

Salena: Yep. I mean, if I stopped working, I'd be more than fine. I have more than enough.

James: Perfect. And the second question is, because you and I have been working together, and you have had a peek under the hood of my own financials, etc., would you say that someone like me is in a very good position to benefit from alternative investments?

Salena: Totally. I mean, I think the message I'm trying to bring to people is that, it's almost like a message of hope. Like, I really genuinely see business owners slogging it out in businesses, and no matter how profitable they are, they can't seem to cut a break. And unless they can sell their business, you know, what other options have they got?

But the people that I want to work with are looking for an insurance policy, if you like, or an exit, sometime in the next two to five years. That's not a crazy timeline. And when you understand these investments, you realize they're not risky in contrast to, you know, even traditional property or traditional shares. But my feeling is that a lot of business owners feel like, yeah, they've only got the two polar extremes and nothing in between.

James: That's it. Look, the big takeaway I've had, and I just want to share this, is if I put the money that I've collected to better work, then I can accelerate the amount of passive income that's coming my way. That is, that's income that's coming from investments that I don't see or touch, that manage well, that have a low risk, that are going to more than cover my living costs, aside from whatever happens to my business, or I don't have to sell down my house or whatever, to live comfortably for the rest of my life.

Salena: Totally.

My analysis of you, which I'll share with people, and I don't think it's sharing too much is, as an investor, you are fairly conservative, you've given a couple of things a bit of a go, but you're at a stage of your life where you don't actually want to take big risks. So the journey for us is to identify the minimum amount of viable capital to help you get a meaningful result in the shortest possible space of time without taking on any risk.

And I know that with you, I probably don't have to worry, but with a lot of other people, they start to get a bit drunk on yields. Like, they kind of start to go, Oh, this is easy, and a bit like you're saying, people mortgage their house for blockchain. People just want to throw it all into this alternative. And my view is like, you've got to have like multiple safety nets.

So alternative investing could be the kind of the key to building a passive income stream in a relatively moderate space of time. Then you might have property behind that, then you might have superannuation behind that and maybe something else. But for most entrepreneurs, Plan A is the business, which is great. But it's great to have a choice. That's really what it's about.

James: It's like when you and I were going through it, I do have quite a few firewalls to fall through before I hit the floor, which is good. And I do carry a minimum threshold of comfort balance, that I'm not willing to risk, which means that I'll never be out on the street. That's the bottom line. I've watched too many episodes of Undercover Billionaire to want to do that for real life.

Salena, the biggest question of all is, if we are a business owner, and we're not happy with how we're going with our wealth creation, and we have got some capital to play with, and we think it might be worth having a chat to you, how do we get in touch?

Salena: I think sort of probably just the easiest is email. You can get me on all the socials, but just salena@inkosiwealth.com. That's it.

James: Thanks. I appreciate this. The alternative investment thing is the conversation we had to have. It's where I'm at right now. I'm super interested in it. I think there'll be updates along the way. Thanks for revealing what they are, and how they work and why they’re such a good idea. Hashtag not advice, etc. Blah, blah, blah, from my perspective anyway.

But I think Salena is actually quite well qualified to provide that. And you can talk to her about your own individual situation, but you know, we've been talking in general terms today. Speak to you next time, Salena.

Salena: Thanks, James.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