

It's time to stop calling investments 'alternative'

KEVIN FOLEY

SPECIAL TO THE GLOBE AND MAIL

April 6, 2026

The term alternative started as a descriptor and became a label. In that transition, its meaning quietly withered away. Alternative describes a choice, option, or method that is different from the usual, conventional, or traditional. Yet something deemed alternative tells you almost nothing about it – only that it's different from something else.

When an adviser first presented an investment as an alternative, or alt, it made some sense. We were alerted that it wasn't the usual stock or bond. Useful, if thin – and ideally followed by a thorough explanation of what it actually was. Since then, that qualifier has calcified into a catch-all asset class. Now, alt describes nothing useful, yet establishes challenging hurdles for adoption.

Many Canadian bank wealth channels report less than 5 per cent adoption of alts across their platforms. On paper, most of them permit or guide allocations of up to 25 per cent of a portfolio. In practice, they make them harder to choose. Alts tend to be less marketed, a smaller part of model portfolios and recommended lists, and generally less available through traditional channels. The retail investor – the one who could arguably benefit most from broader diversification – is left navigating a category defined by what it isn't, with limited guidance on what it actually is.

Meanwhile, many institutional portfolios report 50 per cent or more invested in assets that would be deemed alternative under the current categorization. The largest, most sophisticated investors in the world don't think of their portfolios that way. They don't have an alts bucket sitting awkwardly beside their traditional investments. They simply build portfolios from the best available inputs.

That gap – between what institutions access freely and what some retail investors are nudged toward – is not entirely the fault of the label. But the label isn't helping.

The term alternatives is now a limitation disguised as a characterization. It puts private equity, real estate, commodities, hedge funds, structured credit, and several other distinct asset classes under one word without describing any of them. The only thing they share is what they aren't. They have different risk profiles, liquidity terms, return drivers, structures, and regulatory frameworks. Grouping them under one qualifier is the rough equivalent of calling everything outside of apples and oranges an alternative fruit.

In fact, many investments labelled as alts rely on the same underlying stocks and bonds we have relied on forever. A long/short credit hedge fund holds investment grade bonds. A mortgage fund holds secured mortgages. A market neutral hedge fund holds equities. The assets often aren't exotic. The approach or structure may have evolved, but that's a more useful distinction than the blunt label applied currently.

The fact that these investment solutions are defined solely by exclusion should cause us to wonder why.

So, why?

The label became convenient for the existing structure of the investment industry. The large incumbents – major banks and traditional asset managers – built businesses around public stocks and bonds long before many of these other strategies were widely available. When something new appeared, it was easier to place it outside the existing framework than to rethink the framework itself. Industry groups formed around these alternatives partly out of necessity, working with regulators and distribution channels that needed a way to categorize what didn't fit. The grouping was practical rather than analytical.

Benchmarking reinforced it. The industry has decades of data on stocks and bonds. Many investments now labelled alternative require different modelling approaches – not because the underlying assets are mysterious, but because the category itself is too broad to fit the old models. And the marketing strength of the incumbents helped the vocabulary stick.

What next?

Not all investments currently labelled alternative are good ones. There are poorly structured products, high-fee vehicles, and strategies that haven't earned their complexity. But there is credible evidence that many of them have meaningfully outperformed comparable traditional investments, often with lower volatility, over long enough periods to matter.

Consider that the equity category – universally accepted as the clean, traditional anchor of any portfolio – contains enormous internal complexity. A diversified institutional equity portfolio spans a dozen geographies, multiple styles, factors, and market cap ranges. Nobody calls any of that alternative equity. The label tolerates complexity when it's familiar, and penalizes it when it isn't.

A more useful framework might promote these strategies by what they actually are: private markets, real assets, hedge funds, structured and specialty finance. Within each there are meaningful differences, but those categories fit into a proper asset allocation process far more naturally than a single word defined by exclusion. The credit and mortgage strategies sitting inside that framework aren't exotic – they're just better described.

The case for moving past the label isn't only structural. Many of these strategies were designed specifically to complement traditional holdings – to behave differently when equities sell off, to generate income from sources other than interest rates, or to access return streams that public markets simply don't offer.

The word alternative may have had a job once. It signalled something unfamiliar and invited explanation. Over time it has quietly become the explanation itself – and an unfortunate one at that. Retiring it simply means evaluating investments for what they actually are. The data is available. Investors don't benefit from broad labels. They benefit from better portfolios.

Kevin Foley is managing director, institutional accounts, at Canadian asset manager YTM Capital. He was previously a fixed-income executive at a major Canadian bank and serves on several Canadian foundation boards and investment committees. Kevin.Foley@YTMCapital.com