diffusetap
Virtual Event Series

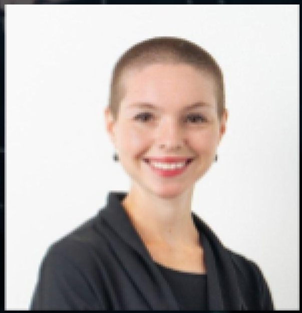
Self-Directed Diversification with Yieldstreet

Guest Speaker:

Wittney Rachlin
Chief Marketing Officer
Yieldstreet

Hosts:

Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: Self-Directed Diversification with Yieldstreet

Last time on DiffuseTap, Wittney Rachlin, Chief Marketing Officer of Yieldstreet, talked to us about the power of diversification, why the golden age of fintech is now, and how to properly allocate capital into alternative assets based on your risk appetite.

Want to make friends from the Diffuse Fund Ecosystem? Email contact@diffusefunds.com.

DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)... straight from your armchair like a boss.

Meet the Speaker

Wittney Rachlin is the Chief Marketing Officer of Yieldstreet, an alternative investment platform that gives average investors access to a variety of asset classes once reserved for private institutions and the Top 1%. She has over 20 years of high-impact growth marketing and operational experience in the global consumer and financial services space, including BlockFi, Prudential, and American Express.

LinkedIn: @wittneyrachlin

About Diffuse®

We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit www.diffusefunds.com.

KENNY ESTES: Our speaker of the day is Ms. Wittney Rachlin. Whitney, would you mind telling us a little bit about you and what you're up to over at Yieldstreet?

WITTNEY RACHLIN: Sure. I spent most of my career at American Express for about 15 years doing everything that they do to train general managers. I ran card products, ran partnerships, negotiated platforms, and also built new platforms. And then about four years ago, I jumped into the startup world and spent a little time in crypto. I've been over here at Yieldstreet as Chief Marketing Officer for the last year and a half.

AYLA: I love it. I'll hop into the first question and we probably should start out with something super basic just to make sure everybody knows what we're talking about. What is diversification? In your world, what does that mean?

WITTNEY: It's all about investing outside your classic stocks and bonds. There is a lot of discussion about the 60-40 rule and if it's dead, and whether the new 60-40 is now 60-20-20. For me and many others, after college graduation, you're trained to invest every dollar you can into your 401k, and then you'll be okay to retire. I think that is a former pipe dream that does not really exist anymore. Diversifying away from the stock market at a balanced risk and return rate is always a smart idea.

We're currently experiencing another downturn. You don't necessarily invest based on downturns or upturns, but you feel the pinch when you aren't diversified. We work in a startup where lots of young people were not around during the 2008 crisis. We've been talking about that as a real value story for alternatives and making sure that not every dollar you have is in the stock market. That way, you don't experience such extreme loss during these downturns.

KENNY: What has driven that change? Most people learn in college to just chuck your money in equities. But generally speaking, what is driving this new rise of alternatives? Is it technology?

WITTNEY: I strongly believe that it is driven by technology. If you think about a hedge fund, they keep minimums very high because why would they want to deal with regular Joes who want to invest 10, 20, or 30 thousand? They want to limit the number of people who can invest. It's the same thing with a real estate deal. They're thinking "let's just get five big investors so we don't have to deal with the pain of managing more investors."

Technology has allowed for platforms to come around and to create the operational backbone to allow thousands of investors into a real estate deal. This way, you don't have to deal with different checks and forms and everything else. That always has been our goal, and that's what we've been able to do. I don't know about the rest of you, but when I started out, I was wondering how all my rich friends were getting into real estate. I was wondering, how does somebody do that without a big check?

But now, there are a lot of platforms out there that allow it to happen. I think it's the golden age of fintech, and it's allowing more people to be part of private markets, which are now the new public markets. It's as easy to be a part of the private markets as it is in the stock market now.

AYLA: Thinking about younger folks who are getting into the space for the first time, how should they design a strategy around diversification with risk appetite in mind? Obviously, different people have different risk appetites. How should one be investing based on their own preferences?

WITTNEY: The general guideline that we tend to hear these days is that alts should be about 20% of your overall investable assets. And within that 20%, you should be balanced. You should be in some things that are potentially higher risk, and some things that are slightly lower risk. Being risk aware is very important.

A lot of people say they're not in private markets because they're "risk averse", but there is no such thing as being risk averse. It's just being risk aware, and understanding your appetite in the same way you would put your portfolio across the stock market, factoring what's more risky and less risky. Higher returns generally equal more risk, and people don't always realize that. They just see the returns part of it.

When I talk to my younger staff, who probably educate me more than I educate them on what to invest in, I usually talk about the underlying structure of different private markets and how important it is to make sure that you have the right information to make those investments properly. I sometimes use the IRR as a benchmark of some things that are really high risk and high return. I usually start from there.

But also, it's important to make sure not everything is in the same asset class. Getting into real estate is great, but how do you diversify beyond just real estate? Our platform intends to help people do exactly that. You can diversify across alternatives on one platform, even into crypto, which is better than going to many different platforms. I would also say that a lot of people under 30 think alternatives are just crypto. I think educating the mass market that that is not the case is very important.

KENNY: Okay, that makes sense. Talking about being risk aware, part of the appeal of ETFs is that you don't have to think about them at all. That's probably why there has been a massive rise of them lately. But how do you become risk aware? Because that feels like a lot of education and time commitment that the average Joe investor might not necessarily have.

WITTNEY: One of our goals as a marketing team is to create bite-sized pieces of content to make people more aware of what they're investing in. It takes a lot of work to educate yourself and to read many different things every day. So, we tend to produce two-minute videos that give you an overview of what is investing in real estate and what you need to know.

That includes what alternatives are, and what you need to know about them. We have a series of those types of things. I also subscribe to some simpler newsletters like The Alt or Vincent which give me an overview of what's going on in the marketplace. And then, I go with some of the guidelines that I follow with stocks. You can generally listen to analysts to hear about what's going on in the marketplace.

I listen to some investors in the office. I listen to some people in some of these spaces and hear what they're interested in, what regions they're investing in, and what areas of VC they're interested in. And then, I follow along with that and put in small amounts across the marketplace, as opposed to plowing everything into one thing. I also have crypto as part of my portfolio, which I knew ahead of time that you also need to be diversified in. A lot of people didn't know that.

AYLA: Looking at how alts have evolved as a part of an institutional portfolio, how has the understanding of alts changed over the last 10 to 15 years? Is it becoming a space that institutions are allocating to with great appetite? Or are most of them still cautious about it?

WITTNEY: The data point that we tend to gravitate towards is that today, institutions are investing about 40% of their assets into alternatives across the spectrum. On the other hand, retail investors are only about 2 to 5%. They shouldn't be at 40% like institutions anyway, because they probably don't have the level of information that institutions have. But somewhere between 10 and 20% is probably the right allocation for retail investors.

Historically, institutions were probably not as deep into those areas. But then again, institutions generally go where they have more knowledge than the general public. Therefore, it’s somewhat natural for them to be more into alternatives than they were before. I also think that the markets themselves have made that opportunity more available. The availability brings access and therefore participation.

KENNY: Okay. I have a question here from the chat. I bought your spiel that the 60-40 rule is dead or should be on its way out the door, and I need to diversify in a risk aware manner. What is a reasonable allocation? Do you think across the various buckets? Obviously, that's going to be dependent upon your particular risk appetite, but can you give some baselines?

WITTNEY: Our general guideline is 10 to 20%. That is going to differ by your risk awareness, but it also differs by your age. When we're younger, we tend to be in higher growth opportunities. As you get older, you tend to be looking more into conservative opportunities. In that 10 to 20% range, you will probably be higher up if you can afford to lose a little money along the way. But if you don't, you're probably a little lower. But once you decide what that allocation is, it's important to do it across asset classes. If I'm only in real estate, I'm going to experience the same problems that I do if I'm only in one stock.

AYLA: One thing I wanted to touch on when it comes to allocating for institutional investors is due diligence. Institutional investors have a lot of resources to do due diligence in certain asset classes. When looking at different verticals to invest in, how does Yieldstreet do due diligence?

WITTNEY: We pride ourselves in doing the due diligence for our investors and taking that burden away from them. We are a platform that for the most part does not manufacture our own investments. Therefore, we're making sure that the things we participate in on behalf of our future investors are incredibly well-vetted.

Less than 5% of the opportunities that pass across our investor teams' desks actually make it to the platform. We are incredibly vigilant and make sure that we've done as much research as possible and as available to us. We've done the market research. And in addition to that, we have some of the best experts outside of Yieldstreet who have had many years of experience in institutions and in those various asset classes. They help us make sure that we're providing the best opportunities for our investors.

KENNY: I have a specific question from Len here about crowdfunding. You're talking about the democratization of finance, which is something I've heard thrown around a bit. It sounds similar to crowdfunding and to what you're talking about. How is Yieldstreet different from crowdfunding? How much of an overlap is there? Where's the Venn diagram?

WITTNEY: I can't speak exactly to the Venn diagram, but what I can say about what Yieldstreet does is we're putting our money where our mouth is. We're investing ourselves and allowing investors to participate in it. Whether we get a full stack of investors to fill out that investment or not, we're invested in it regardless.

By making this investment, we're able to create accessibility for people to participate in things where the minimums are too high, or where they didn't have the information, or the due diligence simply wasn't there. There are nuances to it. They're not exactly different, but they're not exactly the same. I think you need to take each platform for its own value in what they do and how they do it, and then decide for yourself if that's the right place to do it. We see ourselves as more of fractionalized investing rather than crowdsource investing. Again, it's nuanced, but the specifics are a bit different.

KENNY: Okay, I'll ask another question there. What you're doing at Yieldstreet has some element of crowdfunding and opening up the gates for investors. The flip side to that is being risk aware, to use your term. You have to do the education but again, not everybody has the time for that. A lot of regulation and compliance is actually to protect people, who aren't risk aware, from themselves. So, do you think this trend towards the rise of alts and fractional ownership flies in the face of that to some degree?

WITTNEY: It does. I think a lot of regulation is for the benefit of investors. It doesn't always do all of the things that it needs to do, but we also need to remember that people with money are adults, and they need to make their own decisions. As long as they have the information that's available to them, they should be capable of making the right decisions. When we put up an offering, for example, we'll give you the basics if you don't really want to do any research, and we're going to show you why we like that particular offering. We always have the top three bullets.

But for people who know and want to educate themselves, there is a deep well of information in which you can read every aspect of the deal that we have. You can do that level of due diligence. There are always going to be people who jump into things without any knowledge. I think the crypto market is a perfect example of that. Some of these people have no idea what it is, but they plow money into it. And it probably hasn't helped them.

I think that as long as you give people the information they need and at least help guide them in their decisions, people should be able to make those decisions and put their money where they want. Our goal at Yieldstreet is that nobody ever loses $1. We want everybody to make gains when we tell them that we think they will. Obviously, we're not always right. But we've been right about 97% of the time so far, and we provide as much information as people want.

But also, we can tell when people read nothing, and we can tell when people read a lot. And you'd see that there is a wide spectrum. I would say that just because people understand the markets, that doesn't necessarily mean they understand each investment. People use information in different ways.

AYLA: And obviously, for that level of information, they pay some sort of a fee, or so I would assume.

WITTNEY: Not at all. Our information is free. If you invest with us, you have every piece of information that we have. The educational content we have is free. It is supposed to be there to help guide our investors. We are not a broker dealer. We cannot give advice. So, the information we provide, the snippets of video that we provide, and the deep information on our due diligence is all there for people to make their own decisions. It is free. We encourage people to read and understand the investments that they're getting into, but we do not give advice. Everything is free and available to any investor.

AYLA: Interesting. If they decide to invest alongside Yieldstreet, what does the relationship look like?

WITTNEY: We do our best to keep people up to date as deals progress. If you invested in a real estate deal that was offered on our platform about six months ago, for example, it will likely be up on our platform for a couple of weeks. Sometimes things go in a couple of hours, but usually it's at least a couple of weeks. And we provide updates as we receive them.

If you were invested in a commercial property in Savannah, Georgia, we will send you a quarterly snapshot of how that deal is progressing, especially with equity, given that it's such a long process. It could potentially be several years before the term of that deal ends, and before you receive your funds. We make sure people are aware of the progress of construction or of leasing.

Or, for example, if you were in an art equity deal, you will receive updates on the art auctions and what has been happening to the valuation of that specific artist. We keep people up to date and we provide updates on our platform to those investors. We also provide them broadly. If you were checking out a deal and you didn't invest in it, there will be an opportunity to go into that deal and see how it progressed over time, because maybe you would want to get into it next time.

KENNY: Here's another question, and it touches on selection bias. One would argue that good sponsors aren't going to Yieldstreet for their particular deal. And likewise, every family office looking to invest thinks they have amazing deal flow. I would argue that's probably not the case most of the time, but selection bias is a real thing. The top quality deals tend to go quickly and not necessarily to a fractional ownership type setup. How do you overcome that? How do you view that criticism of the model overall?

WITTNEY: If you look at our past deal offerings, you'll see that's actually not the case. Marc Lore just offered up a piece of his funding, his latest capital raise, on Wonder on our platform. We partnered with Greenspring, now Stepstone, on a VC fund earlier this year. We worked with Pantera on an early coin fund for crypto. So, we are getting actual pieces from large and really well renowned sponsors.

As fractionalized investing becomes more normal for the retail investor, those funds that maybe previously were not interested in places like Yieldstreet have really turned the corner. We're actually getting more proactive outreach from them. There are deals in the pipeline that I obviously can't speak to, but there are some pretty impressive names. And if you go to our platform, you can see the institutions and the companies that we've been working with.

AYLA: There's one other question that I want to pick up from the audience that is closely related. If somebody runs an alternative investment opportunity, fund, or deal, what is the process for them to engage with Yieldstreet?

WITTNEY: Sure. We have a link on our site for our originators team, so if you're interested in getting funding for a debt deal or an equity deal, you can reach out. There is a very clear link on our site to do so.

Thank you for downloading this DiffuseTap event transcript.

Sign up for upcoming sessions and check out past features and event transcripts.

Dennis Chookaszian

Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on

Susan Brazer

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on

Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

JOIN US