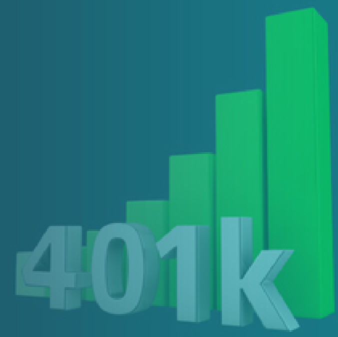
# Opinion:
# The real risk of alternatives remains human




Julian Koski, Co-Founder and Chief Investment Officer at New Age Alpha

March 12, 2026 | 5 min read

**Over the past year we have been studying a growing structural issue in retirement portfolios: the increasing concentration of capital around a narrow set of market narratives.**

As part of that research, we examined the role behavioral assumptions play in shaping asset allocation decisions, particularly the growing push toward alternatives such as private markets and digital assets.

The following analysis outlines the conclusions that emerged from that work and the implications they carry for portfolio construction today.

The observations below reflect research conducted by New Age Alpha during 2025 as we examined how behavioral assumptions influence portfolio risk across both public and private markets. Commentary from across the investment industry has increasingly focused on concentration risk in the U.S. retirement system. Several industry voices have noted that retirement outcomes have become increasingly dependent on the performance of a small number of dominant public companies. At the same time, many have advocated expanding access to private markets and digital assets within 401(k) plans as a way to diversify those risks.

> These observations highlight a structural issue that has been developing within the retirement system for several years. In August 2025, Washington issued an executive order directing regulators to explore whether alternative asset classes, including private equity and crypto, could be more widely incorporated into traditional retirement plans.

Stripped of advocacy, the underlying concern is real. The U.S. retirement system is increasingly shaped by index-based and benchmark-aware investment structures. Trillions of dollars are allocated through mutual funds, target-date funds, and passive strategies whose performance is disproportionately driven by a small group of mega-cap companies. This concentration magnifies exposure to a narrow growth narrative embedded deep within diversified portfolios.

The fragility this creates is not only financial but behavioral. Market structures reflect prevailing assumptions — including the implicit belief that recent winners will continue to dominate. That belief influences asset allocation decisions regardless of whether capital flows into public equities, private markets, or alternative assets.

Much of the debate around concentration risk stops short of recognizing what this concentration truly represents. It is not merely a structural issue that can be solved by introducing new products or asset classes. It is behavioral. The same confidence that concentrates capital in a handful of public companies also fuels the appeal of alternatives. In every case, the underlying risk is the same: human behavior.

## The Mirage of Safety in Alternatives

For decades, financial advisers have been taught that risk is volatility, beta, or correlation. That definition shaped an industry built on models, not on how people actually make decisions. It left advisers focusing on volatility rather than understanding the forces that drive it. As active managers fell behind their passive peers, investors began searching for a new story, one that promised safety in alternatives, marketed as less correlated and more resilient to volatility.

But this confidence rests on a fragile foundation. Moving money from public to private markets does not make the system safer; it only hides the same risk behind illiquidity and stale pricing, since the underlying uncertainty hasn't changed.

In fact, the research shows why alternatives often carry even more risk than listed markets while offering no additional reward.

French and Javakhadze demonstrate that despite prices being transparent, continuously updated, and heavily regulated, much of the information embedded in valuations in listed markets is “based on assumption and is unverifiable,” leaving investors exposed to risks they “are not compensated” for bearing.

If this unpriced risk exists in the most visible markets, it is magnified in alternatives, where valuations rely even more heavily on models, long-term projections, and infrequent pricing. Alternatives do not remove behavioral and assumption-driven risk; they push it deeper into opacity.

When prices depend on ambiguous information or unverifiable assumptions, investors absorb unpriced behavioral risk disguised as a solution. What is often sold as “high-level expertise” is really just complexity that looks safe. And we humans are biased toward believing that anything complex must be intelligent, well-engineered, and therefore less likely to fail.

## When Markets Break, Correlation Returns

This illusion is precisely what breaks when systemic uncertainty surfaces and all asset prices begin to move together.

In 2008, the S&P 500 fell nearly 38.5 percent, and suddenly every major asset class moved in the same direction. Research by Two Sigma shows that average equity correlations jumped from about 40 to almost 70 percent, with just three global factors explaining nearly 90 percent of asset movements. Diversification, the bedrock of portfolio protection, offered little shelter when it mattered most.

In the run-up to the financial crisis, complex credit instruments were treated as sophisticated, low-risk solutions, yet no one could truly see inside them. Their valuations rested on assumptions rather than observable value, creating the illusion of stability. When those assumptions failed, risk surfaced all at once. Alternatives often echo this dynamic: opacity does not remove uncertainty, but it simply delays its recognition.

Private markets were no exception. From 2001 to 2023, spanning the dot-com bust, the global financial crisis, and COVID, private equity moved in the same direction as public markets but with smaller, delayed declines. Neuberger Berman’s analysis shows U.S. buyouts fell 27 percent in the early 2000s, 28 percent in 2008–09, and 9 percent during COVID, versus public-market drops of 47, 55, and 36 percent. The apparent stability reflected slower repricing, not greater safety. And, as the Center for Retirement Research notes, the steadiness of alternatives often rests on “imprecise and outdated valuations” that understate risk and overstate diversification.

This pattern is not limited to retail traders. DALBAR’s Quantitative Analysis of Investor Behavior provides a moment-in-time look at how investors respond to markets, a kind of annual dipstick rather than a long-term trend. The 2025 edition found that the average equity-fund investor earned 16.5 per cent in 2024, compared with a 25 per cent gain in the S&P 500—an 8.5-point gap, among the widest in a decade. Poor timing and emotional decisions remain the consistent drag on performance, visible across institutions and advisers as much as among individuals.

## The Consistent Drag of Behavioral Risk

Every asset class carries behavioral risk. The form changes, but the driver is always the same: bias and the tendency to believe stories that may not be true. This behavioral error is why behavioral risk is most concentrated in assets whose value depends on long-term assumptions, such as growth stocks, private markets, and speculative assets. The more a price relies on belief, the more room there is for behavioral error.

Our research points to a simple conclusion: risk is not a formula; risk is losing money. Diversification can reduce idiosyncratic shocks, such as a pandemic grounding airlines or a sudden bankruptcy, but it does nothing to protect against behavioral risk.

The problem is that advisers cannot always see this danger because they are part of it. It is like traffic: if you are complaining about it, you are it! In the same way, advisers and investors are the very source of the behavioral risk embedded in portfolios.

Risk is not limited to volatility or beta, diversification is not a guarantee of safety, and alternatives are not an escape from uncertainty. The only consistent way to evaluate portfolios is to recognize that human behavior runs through every asset class and that it cannot be diversified away, only avoided.

## Actionable Insights for Advisers

For financial advisers and portfolio managers, acting on these insights means three priorities:

01 **Look beyond structure.** Changing the mix of assets does not eliminate risk; it only moves it. Focus on how confidence, narratives, and timing shape valuations across markets.

02 **Stay anchored in fundamentals.** Assets tied to the real economy, businesses that produce goods, deliver services, or generate steady cash flows, remain the foundation of long-term value. The danger comes when prices drift from those fundamentals and start reflecting stories instead.

03 **Recognize behavioral footprints.** Behavioral risk may never be measured with the precision of traditional metrics, but it can be recognized, qualified, and managed. It reveals itself in sudden inflows, valuation gaps, and the illusion of stability. The opportunity lies in learning to interpret those signals, because recognizing and avoiding those traps is what protects outcomes over time.

Every investment represents a future that matters. Protecting those futures does not come from chasing new products but from understanding the oldest risk in markets: Humans.

These insights form part of New Age Alpha's broader research into behavioral risk and continue to inform our approach to portfolio construction today.

New Age Alpha LLC
555 Theodore Fremd Avenue, Suite A101, Rye, New York, 10580

212 922 2699 T
www.newagealpha.com W

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New Age Alpha LLC
555 Theodore Fremd Avenue, Suite A101, Rye, New York, 10580
212 922 2699 T
www.newagealpha.com W