With interest rates at their lowest for decades and equity markets underperforming, traditional investment styles are no longer delivering the kind of returns investors have been used to.

Enter alternative investments such as art, forestry and gold. Asset management house GAM reports a rise in investment in art, wine, antiques and other such alternative investments.

The table (right) shows that with the exception of Old Masters and American Impressionism, collectors saw their investments outperform the S&P 500 index in 2001.

Wine was the best performer last year, beating the S&P 500 by 92 per cent. American modern art outperformed by 85 per cent and photography by 65 per cent.

High-yield bonds, hedge funds and private equity funds are too volatile for many investors, who are more conservative in the current bear market. Graham Wainer, group head of portfolio management at GAM says: "Clients are increasingly reluctant to take risks. The appetite for downside volatility is reducing."

Wine and photography are two of the more stable alternative investments. Lyons & Hannover LLC/Forbes figures show that only wine beat the index over five years, while photography outperformed the S&P 500 every year apart from 1998.

In comparison, American modern art consistently underperformed the S&P 500 between 1997 and 2000, especially American Old Masters.

Forestry, art and wine can be more tax efficient than traditional asset classes and with many investors preoccupied with reducing their tax burden, these investments are attracting considerable inflows.

For some, the attraction of these investments is philanthropic. Collecting art or antiques is a way of preserving the cultural heritage. And in the case of forestry, there is the cachet of helping to preserve the environment.

Stefan Laterner, deputy global head of UBS Portfolio Management says there has been growing demand for UBS's range of timber investments.

Michael Jenkins, executive director of Forest Trends, says that carbon forestry could be worth $20bn annually and purifying water through forestry $4bn per year. Mr Jenkins says that while returns from forestry are typically 8-10 per cent, revenue from carbon credits and water purification pushes up returns to around 15 per cent.

Those with $1m plus to invest in forestry can expect to make returns of 13-17 per cent, and sometimes in excess of 25 per cent.

For around $4,000, high net worth individuals can invest directly in Roger Dickie New Zealand, one of the country's largest private forestry developments. And from $40,000, they can access United Nature's teak reforestation project in Panama.

There are a number of collective investment schemes catering to the affluent and high net worth market.
UK-based Forestry Investment Management (FIM) offers 35 collective and 50 segregated accounts, available through independent advisers.

Investments in the former start from £10,000 and the latter from £100-150,000. FIM has £90m under management.

Richard Crosby Dawson, managing director of FIM, says investors have made 5-6 per cent compound growth on their initial outlay since 2000.

Forestry's growing popularity is also due to its tax efficiency. In the UK, forestry does not incur any capital gains tax, inheritance tax or income tax.

Unlike commodities such as coffee, aluminum and oil, gold has performed relatively well over the past year, with interest growing since September 11. A recent report by the gold consultancy GFMS in conjunction with the World Gold Council says that between 1993 and 2000, retail investors bought 2,227 tonnes of gold worldwide. The advantage of gold is its negative correlation to the markets, even during a protracted downturn.

It can be bought in the form of bullion, coins or jewellery. Investors can also trade gold futures or options and buy gold funds/stocks.

Gold futures and options (available on the New York and Tokyo metals exchanges) are suitable for more sophisticated investors, with a higher risk attached than funds or gold bars/coins. The more cautious could open a metal account at a private bank or invest in a fund.

Gold and commodities funds are fairly rare. Those offered by Merrill Lynch, Fortis and BBL are managed offshore and invest in equities. However, Power Capital Gold Edge is a British Virgin Islands fund for private clients that speculates on the gold price by trading gold futures and options.

With returns consistently above the S&P 500, wine is attracting larger inflows.

Investors can purchase investment grade wine online through platforms such as Uvine.com, or through wine merchants. Vintages of 2000, 1990 and 1998 are particularly sought after. Merchants recommend holding wine for at least five years to maximise returns.

Sophisticated investors can now speculate on wine prices and stocks through spread betting, options and futures, while wine benchmarks such as WorldwineXchange allow transparent performance comparisons.

If you don't know your Bordeaux from your Bergerac, wine funds are a good option. From £25,000 investors can access the AWM Fine Wine Fund, a Cayman Islands' domiciled fund. Run by Ascot Capital Management out of Geneva, it invests in Bordeaux, Burgundy and New World shares. Société Générale Asset Management offers a venture capital wine fund, the Premier Cru fund.

Owning art is pleasurable, and if lucky, financially rewarding. However, it is not for everyone. In addition to the risk of purchasing a fake or paying over the odds, the high costs involved in purchasing, insuring, storing and transporting the work exclude all but the most affluent.

American modern art has seen the most growth in 2001, but French impressionism also fared well against the S&P 500, beating the index by 43 per cent. Old Masters however have struggled to perform from 1996 to 2001, outperforming the stock market only in 1997, and by just 2 per cent.

American impressionism has fared even worse over the medium term, underperforming the S&P 500 by over 50 per cent in 1997, 1999 and 2000 and by over 30 per cent in 1998 and 2001.
Until investor confidence in traditional asset classes improves, alternative investments will remain attractive. But these are largely safe haven investments and once markets pick up, investors are likely to decrease their allocations to gold, art and wine again. Anna Bawden is features editor of FT Business magazine, Professional Wealth Management