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WEEKEND INVESTOR --- In Search of Higher Returns --- Growth prospects in conventional stocks and bonds look scant; But a slice of a riskier investment -- such as frontier markets or peer-to-peer lending -- could give your portfolio a boost

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Stocks in the U.S. look expensive and bond yields remain paltry, leaving investors with a quandary: Where should they go for diversification and a shot at greater returns?

Wandering off the beaten path almost invariably leads to taking more risk, seeing bigger swings in value and, sometimes, higher fees.

But financial advisers say that isn't necessarily bad -- as long as these bets remain a small part of your portfolio, and you understand what could go wrong and are prepared to lose your money.

Here is a look at five options that are generally available to a broad swath of the public. Some of these investments shouldn't represent more than 1% of your portfolio, experts say. Others might account for more, alone or in combination, but make sure that steep losses or difficulties liquidating the investments wouldn't threaten your retirement savings, your standard of living or your other financial goals.

Peer-to-peer lending

Lending money to someone who is making home improvements or trying to pay down a credit-card bill can pay off better than buying a bond issued by a large corporation, let alone the federal government. That isn't a surprise -- the risk of default is likely far higher.

Online platforms such as Lending Club and Prosper connect individual lenders and borrowers. Investors, who can make loans with as little as $25, typically pay a service fee as the borrower pays back the loan. Lending Club and Prosper both collect 1% of each payment.

The platforms provide credit analyses and ratings on the borrowers. "You know you're going to get defaults, there is no question. These are unsecured, individual borrowers," says Jeffrey Buck, an Atlanta-based principal at wealth-management firm Diversified Trust.

Nonetheless, Mr. Buck says, the potential payoff could be worthwhile.

Performance can vary significantly, though returns have typically ranged from 6% to 7.5% over the past three years across all Lending Club and Prosper loans, net of fees and defaults, says Matt Burton, chief executive of Orchard Platform, a New York-based firm that works with such lenders.

One thing to be aware of: Large institutional investors are active on peer-to-peer lending platforms and use advanced models to look for borrowers most likely to pay the loans back.

Craig Wellman, a retired engineer who lives in Newark, Del., has been making small, short-term loans to individual borrowers through Lending Club since last year.

"I look at it as a much better return than other fixed-income options at this time," says Mr. Wellman, who is 73 years old. He says he has committed about 5% of his investments to the loans, which he says have outperformed his plain-vanilla bondholdings, despite some defaults.

Investors can start using Lending Club or Prosper by signing up at their websites, which requires providing personal and bank-account information. The platforms are similar, Mr. Burton says.

You don't need to invest more than the minimum, but may want to commit more to properly diversify a loan portfolio. Investors should avoid having too much money riding on just a small handful of loans, experts say.

Frontier markets

Investing abroad is commonplace. Some investors have even bought funds that invest in emerging markets such as India and Brazil, which have seen rapid growth in recent decades.

But what about Argentina, Nigeria or Romania?

Investing in so-called frontier markets isn't for the faint of heart. Local markets can be opaque to outsiders and prone to rapid, steep declines in times of turmoil.

In 2008, during the financial crisis, for example, the MSCI Frontier Markets Index declined 55%, compared with a 38% decline in the S&P 500, excluding dividends, according to investment-research firm Morningstar. The frontier index also has lagged behind the S&P 500 each of the past four years.

But investors who weather the storms also can be rewarded. In 2010, for example, the frontier index rose 19% when the S&P 500 was up 13%.

This year, the frontier index is down 2.9%, compared with a 1.6% gain for the S&P 500, through Thursday.

Don't go overboard. Allocating even 1% of your stock portfolio to frontier markets would represent a bullish bet, given they represent just 0.3% of the value of all publicly available shares in the global MSCI Investible Market Index.

Buying individual stocks in frontier markets is difficult or impossible for many individual investors, and -- just as with U.S. stocks -- low-cost index funds are often the best choice.

Single-country funds tend to offer the greatest opportunity for outperformance, but also come with the most risk. The largest exchange-traded fund focused on frontier markets is the iShares MSCI Frontier 100 ETF, which invests in Kuwait, Nigeria and 17 other countries.

The fund, which is down 0.6% this year, charges annual fees of 0.79%, or $79 on a $10,000 investment.

Investors who prefer actively managed funds have other alternatives, but they can be pricey. Among the largest are the Harding Loevner Frontier Emerging Markets Portfolio, a mutual fund that had more than 60% of its assets in Africa and Asia at year-end, and the Wasatch Frontier Emerging Small Countries Fund, which had nearly 76% of its assets in those two regions.

The Harding Loevner fund charges annual fees of 2.22% and is down 1.9% this year. The Wasatch fund, which is open to new investors only through Wasatch Funds, charges 2.24% and is down 3.2%.

Farmland and timberland

Investors who prefer to own a less-exotic asset can buy land. It is an investment that can zig when stocks and bonds zag, and it can provide income from leases or from producing food or timber.

Last year, the return on farmland was nearly 13%, when factoring in appreciation and income, according to an index compiled by the National Council of Real Estate Investment Fiduciaries. Timberland, meanwhile, returned 10%.

There are risks. Land can take time to sell and money to maintain. Owners of farmland run the risk that farmers who lease the land will be unable to pay the rent, says Dennis Moon, who heads the specialty asset-management group at U.S. Trust, Bank of America's private-bank unit, in Dallas. Timberland is vulnerable to fire, insect infestation and other natural hazards.

The wealthy can diversify that risk by directly owning a portfolio of properties in various locations, Mr. Moon says. For smaller investors, that approach is likely too expensive.

If you are considering acquiring property on your own, you will likely need professional assistance. Individuals run the risk of overpaying at auction, and could have trouble finding a tenant farmer, especially if the parcel is small, says Perry Vieth, president of Ceres Partners in South Bend, Ind., which manages a $410 million fund that invests in more than 200 farms, primarily in the Midwest. It is available to accredited investors who have more than $1 million in assets, excluding their homes, or annual incomes exceeding $200,000. The minimum investment is $250,000.

Investors with less money to invest can buy shares in publicly traded real-estate investment trusts that specialize in farmland, such as Gladstone Land or Farmland Partners, or timberland, such as Weyerhaeuser or Plum Creek Timber.

These REITs trade like stocks, and performance can vary widely. Gladstone and Farmland Partners are up 18% and 15% this year through Thursday, including dividends, respectively. Plum Creek has notched a 4.4% gain, while Weyerhaeuser is down 7.4%.

Rental property

Owning a rental property also can pay off in terms of income and appreciation.

The average fair-market rent for a two-bedroom home in the U.S. has increased about 5.7% in total over the past five years, according to data from the Department of Housing and Urban Development. In hot markets such as San Francisco and New York, the increases have been greater. Home values also have been rising as the housing market gradually recovers from the financial crisis.

Yet being a landlord can require a significant investment of money and time, says Jack McCabe, an independent housing analyst in Deerfield Beach, Fla.

Maintenance expenses are likely to take a bite out of rental profits, Mr. McCabe notes. And tenants may be unable to pay rent if the economy stalls. Many landlords also hire property managers, which adds to costs.

Those interested in becoming landlords should start with the market in which they live so they can have some direct supervision over the property and tenants, Mr. McCabe says.

Investors who want to diversify their real-estate holdings, however, need to spend time researching and understanding various rental markets, and will need to stay in close contact with tenants, Mr. McCabe says.

The National Multifamily Housing Council and sites like Apartments.com are good places to start for free information about the rental industry, he says. Specialized reports from consulting firms, however, could cost upward of $1,000.

Alternatively, investors who lack the resources to purchase a property or the inclination to research the market can buy shares in a REIT that owns a portfolio of single-family rentals.

For example, American Homes 4 Rent, one of the largest such REITs, owns more than 34,500 properties in 22 states. The REIT is up 1.2% this year, through Thursday, including dividends.

Art and collectibles

Art and collectibles can diversify your portfolio. But outsize returns are as rare as a forgotten Picasso in the attic.

Still, you don't need to be able to afford a Picasso to invest.

If you are interested in artwork, you can start by visiting galleries to get a sense of what appeals to you.

If you decide to make a purchase, consider hiring a consultant or adviser who can give you a sense of the market. Friends, acquaintances or gallery owners may be able to provide references.

Suzanne Modica, an art adviser and co-founder of Twaas, a New York-based consultancy, says collectors with limited budgets can buy works on paper by emerging young artists for a few thousand dollars. Many photographs from such artists also are available for under $10,000, though paintings are typically more expensive.

Art isn't the only option. Other popular collectibles include jewelry, watches, wine and classic cars, according to a recent report by Knight Frank, a real-estate consultancy based in London.

Among the risks of investing in art and collectibles is changing tastes. Investors could find that what they own -- whether it is Russian posters from the 20s or stacks of rockabilly-era 45s -- is falling out of fashion.

Even pinning down how much your piece is worth can be tricky, particularly if sales of similar objects are uncommon.

"Some artists have a ready, identifiable market, and you can look at auction records to come up with something that you think represents a fair value," says Kemp Stickney, chief fiduciary officer and head of family wealth at Wilmington Trust in Palm Beach, Fla. "For other art and collectibles, it can be much more murky."

Investors should research the artworks they are interested in and how to care for them. Try to make sure you aren't overpaying to limit the risk of being stuck with something you can only sell for a loss.

If an investor is knowledgeable about a certain area of the collecting world and gets enjoyment out of the hobby, having a 5% allocation to the collection allows that investor to indulge the interest without too much risk if it turns out to be worthless, says Mark La Spisa, a financial planner and president of Vermillion Financial Advisors in South Barrington, Ill.

One other way to mitigate the risk: Buy what you love. "If it appreciates, great," Mr. Stickney says. "But if it doesn't, you still have something you like."

A White-Knuckle Investment: The Case for Adding Bitcoin to a Portfolio

Is your stomach strong enough to take a flier on bitcoin?

The value of the virtual currency can fluctuate wildly -- even in a single day. From July 2010 to February 2014, its price was 26 times more volatile than the S&P 500, according to Matt Elbeck, a marketing professor at Troy University in Alabama, who co-wrote a recent study about bitcoin with a colleague, Chung Baek.

In addition, nearly a half-billion dollars worth of bitcoin disappeared last year from Mt. Gox, once the dominant exchange for bitcoin trading. And regulators are paying increasing attention to digital currencies, adding another element of uncertainty.

For many investors, those kinds of risks are reason enough to stay far away.

Yet bitcoin could have some virtues for certain investors. "It doesn't trade with stocks or bonds or gold or any other asset that typically appears in a mass-affluent portfolio," says Nicholas Colas, chief market strategist at New York-based brokerage firm Convergex Group.

There also is growth potential, given that digital currencies are in their infancy. Investment firms show growing interest in the currency and in the technology behind it, which could point to more widespread use.

This year, the value of bitcoin has fallen about 23%, through Thursday, according to a CoinDesk index. Still, a single bitcoin is worth $243.26, up from less than $5 three years ago, according to the index.

Dedicating a small sliver of your portfolio to bitcoin may make sense for a younger, affluent investor who won't get spooked by sharp swings in value.

Mr. Elbeck says such a stake should represent less than 0.5% of your investments.

And investors who will need to tap the money in the near term -- or whose finances would be compromised if the investment became more or less worthless -- should stay far away, says Mark La Spisa, president of Vermillion Financial Advisors in South Barrington, Ill.

"You want to try and be a day trader with this, go ahead and have fun, as long as it won't have a negative impact on your retirement," Mr. La Spisa says of bitcoin and other risky investments.

Investors can purchase bitcoin online through websites such as San Francisco-based Coinbase. The currency is stored in a digital "wallet," which could be on your computer's hard drive, online or in an offline "vault" operated by a storage firm.

Another option could be available soon. Bitcoin Investment Trust, the first publicly traded bitcoin fund, is expected to start trading in coming weeks, according to Michael Sonnenshein, a spokesman for fund sponsor Grayscale Investments, a subsidiary of New York-based Digital Currency Group. Each share of the fund will represent about one-tenth of a bitcoin, minus fees, he says.

-- **Anna** Prior

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