PFL Academy

Teacher Guide: Chapter 63 — Advanced Investment Concepts

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet	L-47: Investment Types, L-62: Portfolio Strategies

LESSON FLOW

5 min **THE CHALLENGE**

- Read Jade's cryptocurrency story. Emphasize the emotional trap of FOMO (fear of missing out).
- Discussion: "Why did Jade invest MORE at the peak instead of taking profits?"
- Key lesson: Spectacular gains can reverse just as spectacularly.

10 min **CORE CONCEPTS**

- Review 5 key terms. Distinguish legitimate alternatives (REITs) from speculation (crypto).
- Emphasize: "Complexity doesn't equal sophistication."
- Quick poll: "Who has heard friends/family discuss cryptocurrency or NFTs?"

25-30 min **APPLY IT**

- **Part A (10 min):** Alternative comparison table. Focus on which provided actual diversification.
- **Part B (10 min):** Portfolio calculations. Show how small alternative allocations affect returns.
- **Part C (5-10 min):** Decision framework. Practice critical thinking before investing.

10 min **CHECK YOUR UNDERSTANDING**

- Complete in class or assign as homework.
- Q5 reflection is important—many students feel FOMO pressure about crypto.

DIFFERENTIATION

Support

- Focus on REITs vs. direct real estate comparison (most accessible).
- Skip cryptocurrency details if confusing; emphasize "speculative" classification.
- Provide worked example for Portfolio B calculation.

Extension

- Research actual REIT ETF expense ratios and dividend yields.
- Calculate 20-year impact of 10% REIT allocation vs. no alternatives.
- Analyze a real cryptocurrency's price history and volatility metrics.

ANSWER KEY

Part A: Alternative Investment Comparison

Analysis 1: GOLD is the best diversifier. It gained +5% in 2008 when stocks fell -37%, and +25% in 2020 when stocks were volatile. REITs actually fell MORE than stocks in 2008 (-39% vs -37%), providing no diversification benefit.

Analysis 2: 1-5% maximum allocation. With potential for 75-80% losses, larger allocations could devastate a portfolio. At 5% allocation, even total loss only impacts portfolio by 5%.

Part B: Portfolio With Alternatives

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Portfolio A: (0.60 × 10%) + (0.40 × 5%) = 6% + 2% = 8.0%
Portfolio B: (0.50 × 10%) + (0.30 × 5%) + (0.10 × 8%) + (0.10 × 6%)
= 5% + 1.5% + 0.8% + 0.6% = 7.9%
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4. Cameron's REITs reduced his overall portfolio volatility. When stocks fell 34%, his 10% REIT allocation only fell 12%, buffering total losses. Diversified portfolio declined less than 100% stock portfolio would have.

Part C & Check Your Understanding

5. Questions to ask: (1) Can I afford to lose 100% of this? (2) Do I understand how cryptocurrency actually works? (3) Am I investing based on fundamentals or FOMO? (4) Have I maximized traditional investments first?

CYU 1: B (REIT)

CYU 2: Gold tends to hold value during uncertainty when investors flee to "safe havens." Limitations: produces no income, can have long flat/declining periods, historically underperforms stocks long-term.

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CYU 3: 5% of $50,000 = $2,500 in crypto
$2,500 × 80% loss = $2,000 lost
Portfolio impact: $2,000 / $50,000 = 4% total portfolio loss
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CYU 4: REIT advantages: (1) Liquidity—can sell shares instantly vs. months for property. (2) Diversification—one fund owns hundreds of properties vs. concentration in single property. (3) No management burden. (4) Lower minimums.

COMMON MISCONCEPTIONS

Misconception	Clarification
"Cryptocurrency is the future—I need to invest now."	May or may not be true, but FOMO is not an investment strategy. If crypto succeeds, 1-5% allocation captures gains. If it fails, small allocation prevents disaster.
"REITs and rental property are the same thing."	REITs provide real estate exposure without property management, illiquidity, or concentration risk. Very different risk/return profiles.
"Alternative investments always reduce risk."	Some alternatives (REITs in 2008) fell MORE than stocks. Diversification only works if assets move differently. Test correlation before assuming benefit.