

PFL Academy

Teacher Guide: Chapter 69 — Alternative Investments and Wealth Strategies

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet	L-47: Investment Types, L-64: Risk and Return, L-65: Diversification

LESSON FLOW

5 min THE CHALLENGE

- Read Alex's crypto story—emphasize both the direct loss AND the opportunity cost.
- Discussion: "What mistakes did Alex make? What should have come first?"
- Key insight: FOMO-driven investing can destroy decades of wealth-building potential.

10 min CORE CONCEPTS

- Explain correlation concept visually—draw assets moving together vs. independently.
- Walk through each alternative type: real estate, gold, crypto—their trade-offs.
- Quick check: "Why might gold rise when stocks crash? What's that called?"

25-30 min APPLY IT

- **Part A (8 min):** Alternative comparison table—discuss trade-offs for each.
- **Part B (10 min):** Real estate paths—ensure students understand liquidity trade-off.
- **Part C (7 min):** Crypto volatility calculation—make the risk tangible.

10 min CHECK YOUR UNDERSTANDING

- Q3 opportunity cost calculation is the key moment—\$8,000 → \$123,000 lost.
- Q5 personal reflection should produce thoughtful, conservative allocations.

DIFFERENTIATION

Support

- Focus on REITs as simplest alternative—like stock but for real estate.
- Use "eggs in basket" analogy for correlation benefits.
- Provide the compound interest calculation; have them interpret it.

Extension

- Research actual correlation coefficients during 2008, 2020, 2022 crises.
- Compare historical returns: gold vs. stocks vs. Bitcoin over various periods.
- Design a complete portfolio with specific alternative allocations and rationale.

ANSWER KEY

Part A: Alternative Investment Comparison

1. Best diversification: Gold/Precious Metals (+0.1 correlation—moves almost independently from stocks). Income + appreciation: REITs (dividend yield from rental income plus potential price appreciation, similar to owning property).

Part B: Real Estate Investment Paths

Better for hands-off investor: REIT Fund—zero management required, instant liquidity, professional management.

Better for building equity: Rental Property—builds \$115,000 equity over 5 years through mortgage paydown and appreciation, though requires active management and initial negative cash flow.

Part C: Cryptocurrency Risk Analysis

2. Value after 76% crash:

$$\$1,000 \times (1 - 0.76) = \$1,000 \times 0.24 = \$240$$

Lost: \$760 (76% of investment)

Check Your Understanding

1. C (Diversification through low correlation)

2. Alternatives are higher risk, less liquid, more complex, and harder to value. Traditional index funds are proven wealth-builders with lower costs and better regulatory protection. Young investors should build a foundation of emergency savings and retirement contributions in traditional investments before adding alternatives.

3. $FV = \$8,000 \times (1.07)^{43}$

$$FV = \$8,000 \times 18.34 = \$146,720$$

(or ~\$123,000–\$147,000 depending on calculation method)

Opportunity cost: Over \$120,000 in lost wealth

4. Prerequisites before alternatives: (1) 3-6 month emergency fund, (2) Consistent retirement contributions (15%+) to traditional investments, (3) Understanding of the specific alternative asset. Some also include: paid off high-interest debt, adequate insurance coverage.

COMMON MISCONCEPTIONS

Misconception	Clarification
"Cryptocurrency is the future of money, so it's a safe investment."	Technology potential doesn't equal investment safety. Crypto has crashed 70%+ multiple times. Even if blockchain succeeds, specific cryptocurrencies may not. Investment thesis and speculation are different things.
"I can't afford real estate, so it's not for me."	REITs allow real estate investment starting at \$100-\$500 through regular brokerage accounts. You don't need to buy property directly to gain real estate exposure.
"If my friends are making money in crypto/NFTs, I should too."	Survivorship bias—you see winners, not losers. FOMO (fear of missing out) drives poor decisions. By the time trends reach social media, often the best opportunities have passed.