



# Alternative Investments Quick Reference

Key concepts for alternative investments and wealth strategies



## Real Estate

### Types

- **Rental Properties:** Direct ownership, generate income
- **REITs:** Stock-like, high liquidity, lower capital requirement
- **Crowdfunding:** Online platforms, lower minimums (\$500-\$5K)
- **Fix-and-Flip:** Buy, renovate, sell (active investing)

### Pros & Cons

| Pros                                                                                                                                          | Cons                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Tangible asset</li><li>• Income generation</li><li>• Tax benefits</li><li>• Inflation hedge</li></ul> | <ul style="list-style-type: none"><li>• Illiquid</li><li>• High capital needs</li><li>• Management intensive</li><li>• Market/location risk</li></ul> |

### Key Metrics

- **Cap Rate:**  $\text{NOI} / \text{Property Value}$
- **Cash-on-Cash:**  $\text{Annual Cash Flow} / \text{Cash Invested}$
- **1% Rule:** Monthly rent  $\geq 1\%$  of purchase price

## **B** Cryptocurrency

### Major Types

- **Bitcoin (BTC):** Digital gold, store of value
- **Ethereum (ETH):** Smart contract platform
- **Altcoins:** Alternative cryptocurrencies
- **Stablecoins:** Pegged to USD or other assets

### Key Concepts

- **Blockchain:** Distributed ledger technology
- **Wallet:** Hot (online) vs. Cold (offline storage)
- **Mining:** Creating new coins via computation
- **DeFi:** Decentralized finance platforms

### Risks

- Extreme volatility (50%+ swings)
- Regulatory uncertainty
- Security risks (hacking, lost keys)
- No FDIC insurance
- Tax complexity (every transaction taxable)

### Recommendation

- Max 1-5% of portfolio
- Only invest what you can lose
- Use hardware wallet for large amounts
- Understand before investing



## Commodities

### Types

- **Precious Metals:** Gold, silver, platinum
- **Energy:** Oil, natural gas
- **Agriculture:** Wheat, corn, soybeans
- **Industrial:** Copper, lumber

### Investment Methods

- **ETFs:** Easiest, most liquid
- **Futures:** Leveraged, complex
- **Physical:** Storage costs, insurance
- **Mining Stocks:** Indirect exposure

### Purpose in Portfolio

- Inflation hedge
- Diversification (low correlation to stocks)
- Crisis insurance (gold)
- Typical allocation: 5-10%

### Important Note

- No inherent yield (no dividends/interest)
- Returns from price appreciation only
- Can be volatile



## Private Equity

### Types

- **Venture Capital:** Early-stage startups
- **Growth Equity:** Established, growing companies
- **Buyouts:** Acquiring mature companies
- **Angel Investing:** Individual startup investing

### Accredited Investor Requirements

- \$200K+ annual income (individual)
- \$300K+ annual income (joint)
- \$1M+ net worth (excluding primary residence)
- OR professional certifications (Series 7, 65, 82)

### Characteristics

- **Minimum:** \$25K to \$1M+
- **Lock-up:** 7-10 years typical
- **Fees:** 2% management + 20% performance
- **Returns:** Target 15-25%+ annually

### Risks

- Extremely illiquid
- High fees
- Limited transparency
- High failure rate (especially VC)

## Collectibles

### Types

- Fine art
- Rare coins/stamps
- Classic cars
- Fine wine
- Sports memorabilia
- Trading cards
- Watches

### Investment Considerations

- **Passion First:** Buy what you love
- **Authentication:** Critical for value
- **Condition:** Dramatically affects price
- **Storage:** Climate control, insurance
- **Transaction Costs:** 10-25% (auctions, dealers)

### Tax Treatment

- Maximum 28% capital gains rate
- Higher than stocks/bonds (20% max)
- No income generation

### Liquidity

- Very illiquid
- May take months/years to sell
- Market highly dependent on trends

## Suggested Allocations

| Alternative       | Conservative | Moderate      | Aggressive    |
|-------------------|--------------|---------------|---------------|
| Real Estate       | 0-5%         | 5-10%         | 10-15%        |
| Commodities       | 0-5%         | 5-10%         | 5-15%         |
| Crypto            | 0%           | 0-3%          | 1-5%          |
| Private Equity    | 0%           | 0-5%          | 5-10%         |
| <b>Total Alts</b> | <b>0-10%</b> | <b>10-20%</b> | <b>15-30%</b> |

*Note: These are general guidelines. Individual circumstances vary.*

## ✓ Due Diligence Checklist

### Before ANY Alternative Investment

- Understand the investment thoroughly
- Know the risks and potential losses
- Verify liquidity constraints
- Calculate all fees and costs
- Check regulatory status
- Research track record/history
- Understand tax implications
- Determine appropriate allocation
- Have emergency fund first
- Max traditional retirement accounts first

## 💎 Wealth-Building Principles

### Foundation First

- **1. Emergency Fund:** 3-6 months expenses
- **2. Pay Off High-Interest Debt:** >6-7% interest
- **3. Employer Match:** Max 401(k) match
- **4. Tax-Advantaged Accounts:** IRA, HSA, 529
- **5. Core Portfolio:** Stocks, bonds, index funds
- **6. Alternatives:** Only after foundation solid

### Diversification Strategy

- Don't put all eggs in one basket
- Alternatives should complement, not replace, core holdings
- Low correlation reduces overall portfolio volatility
- Rebalance annually

### Time Horizons

| Timeline   | Strategy                                 |
|------------|------------------------------------------|
| 0-5 years  | Focus on liquidity; minimal alternatives |
| 5-10 years | Moderate alternatives (REITs, gold)      |
| 10+ years  | Can include less liquid alternatives     |

### 🚩 Red Flags - Avoid These

- Guaranteed high returns with no risk
- Pressure to invest immediately
- Unlicensed or unregistered sellers
- Vague or secretive investment strategies
- Difficulty withdrawing funds
- Unverifiable track records
- Investments you don't understand
- Social media "hot tips"

### 💡 Remember

- Alternative  $\neq$  Better
- Higher risk doesn't guarantee higher returns
- Illiquidity is a real cost
- Fees compound over time
- Don't invest in what you don't understand
- Diversification reduces risk
- Time in market > timing market
- Focus on what you can control (fees, asset allocation, behavior)



### Additional Resources

#### Regulatory & Education

- **SEC.gov:** Investor alerts, education
- **FINRA.org:** Broker verification
- **CFTC.gov:** Commodities/futures regulation

#### Research Platforms

- Real estate: Zillow, Redfin, BiggerPockets
- Crypto: CoinMarketCap, CoinGecko
- REITs: Nareit.com