

## THE CHALLENGE

*Jade invested \$5,000 in Bitcoin at \$20,000 per coin. Within six months, it tripled to \$60,000—her investment was now worth \$15,000! But instead of rebalancing to lock in gains, she invested another \$5,000 at the peak. When Bitcoin crashed to \$15,000 per coin, her holdings dropped from \$15,000 to just \$5,000. Meanwhile, her "boring" stock index funds gained 10% steadily. Jade learned that spectacular gains can become spectacular losses just as quickly.*

**How can understanding alternative investments help you distinguish between legitimate opportunities and speculative risks?**

### Learning Objectives

- Analyze alternative investment options including REITs, commodities, and cryptocurrency.
- Evaluate appropriate allocation levels for alternatives based on risk tolerance.
- Distinguish between legitimate diversification and speculative trends.

## CORE CONCEPTS

Term	Definition
Alternative Investment	Assets beyond traditional stocks and bonds, including real estate, commodities, private equity, and cryptocurrency.
REIT	Real Estate Investment Trust—a company that owns income-producing properties, required to distribute 90% of income as dividends.
Commodities	Physical goods (gold, oil, agricultural products) that offer different risk characteristics than stocks or bonds.
Cryptocurrency	Digital currency using blockchain technology, extremely volatile and speculative with potential for total loss.
Leverage	Using borrowed money to amplify returns—magnifies both gains and losses, substantially increasing risk.

**Background:** Alternative investments can provide diversification benefits beyond traditional stock-bond portfolios. **REITs** offer real estate exposure with liquidity and professional management. **Gold** may serve as an inflation hedge during economic uncertainty. **Cryptocurrency** is highly speculative—advisors recommend 1-

5% maximum allocation, if any. The key insight: **complexity doesn't equal sophistication**. Simple, diversified portfolios often outperform complex alternatives. Before considering alternatives, maximize efficiency in traditional investments through optimal allocation, low fees, and tax efficiency.

## APPLY IT

### PART A: ALTERNATIVE INVESTMENT COMPARISON

Analyze how different alternatives performed during major market events.

Investment	2008 Crisis	2020 COVID	Average Return	Volatility
Stocks	-37%	+18%	10%	High
Bonds	+5%	+8%	5%	Low
REITs	-39%	-12%	8%	High
Gold	+5%	+25%	6%	Medium
Bitcoin	N/A	+300%*	Varies	Extreme

\*Bitcoin was -50% in March 2020, then +300% from bottom by year-end

#### Analysis 1: Diversification Value

Based on the table, which alternative provided the best diversification benefit (held value or gained when stocks fell)?

Best diversifier: \_\_\_\_\_ (REITs / Gold / Bitcoin)

Because: \_\_\_\_\_

#### Analysis 2: Appropriate Allocation

Given Bitcoin's extreme volatility (+300% one year, -75% another), what maximum portfolio allocation would be appropriate for most investors?

Max allocation: \_\_\_\_\_ (1-5% / 10-20% / 30%+)

Because: \_\_\_\_\_

**Hint:** A good diversifier moves differently than stocks. If it falls more than stocks during crashes, it adds risk rather than reducing it.

### PART B: PORTFOLIO WITH ALTERNATIVES

3. Compare these two portfolios. Calculate the expected return for each (weighted average).

**Portfolio A:** 60% stocks (10%), 40% bonds (5%) | **Portfolio B:** 50% stocks, 30% bonds, 10% REITs (8%), 10% gold (6%)

Show your calculations:

Portfolio A return: \_\_\_\_% | Portfolio B return: \_\_\_\_%

4. Cameron allocated 10% to REITs for diversification. During 2020, his stocks fell 34% in March but recovered; his REITs fell 12% overall. How did having REITs affect his portfolio's volatility?

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### PART C: DECISION FRAMEWORK

5. A friend says: "You should put 25% of your savings in cryptocurrency—it could 10x!" Using the decision framework, list three questions you should ask before investing.

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### CHECK YOUR UNDERSTANDING

1. An investment that owns income-producing properties and must distribute 90% of income as dividends is called a:

- ☐ A. Commodity fund
- ☐ B. Real Estate Investment Trust (REIT)
- ☐ C. Hedge fund
- ☐ D. Cryptocurrency exchange

2. Why might gold serve as a "safe haven" during economic uncertainty, and what are its limitations as an investment?

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3. **Calculation:** If you invest 5% of a \$50,000 portfolio in cryptocurrency and it loses 80% of its value, how much do you lose? How does this affect your overall portfolio?

Show your work:

Dollar loss: \$\_\_\_\_\_ | Portfolio impact: \_\_\_\_\_%

4. Marcus chose REIT index funds over buying rental property. Give two advantages of REITs over direct property ownership.

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5. **Reflection:** Would you include any alternative investments in your portfolio? If yes, which ones and at what allocation? If no, why not? What criteria would change your decision?

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