*Alternative Assets*

Alternative Assets are investments that are non-traditional, that is, not stocks, bonds, and mutual funds. These alternative investments have grown in popularity in the last 20 years.

*Real Estate*

Perhaps you know someone in your family who owns a rental property, a residence that is purchased and rented out to a tenant for a year or two (maybe longer). This is an example of a real estate investment. Investors with a large amount of capital can buy commercial property, like an office building or shopping mall, and rent out the space to businesses. Another popular real estate investment is a publicly traded REIT (real estate investment trust); this is a stock that is backed by real estate assets that pass along the cash flows to the investor and if the value of the property rises, the stock price can appreciate.

*Hedge Funds*

A hedge fund is an investment partnership that can only be sold to “accredited investors”, investors like large institutions or very wealthy individuals. Hedge funds can hold securities and use strategies that ordinary mutual funds cannot hold due to their inherent risks. Hedge fund managers earn 2% of assets and 20% of the profits, which is much more lucrative than other compensation structures in the investment world. The wealthiest investment managers in the world earned their money in the hedge fund industry.

*Private Equity*

Sophisticated investors can also invest in Private Equity funds, which are partnerships that purchase entire companies (rather than just a few shares like a mutual fund would buy), and fix them up and sell them in a few years. The principle is the same as all types of investing, that is, buy low and sell high. It’s like house flipping, but with companies. Private equity funds look for companies that are undervalued and buy the entire firm; this is known as taking a public company “private”, since its shares will no longer trade in a public market after a private equity fund purchases all the shares.

*Farmland*

In recent years there has been great demand for farmland as an investment. This is due to the growth in global human population and a decrease in arable land around the world. In addition, the burgeoning middle class in Asia requires a higher quality diet than it did 20 years ago, hence a greater demand for agricultural products.

*Futures*

Futures contracts are promises to buy or sell a commodity at a certain price on a specific date. For example, if you thought the price of wheat was going to rise in the next six months, you would buy a futures contract for purchase of wheat of a specific price. If the price of wheat is higher in six months than you contracted price, then you make a tidy profit. Futures contract are known as “derivative securities” because their payoffs are derived from an underlying asset, like wheat in this example.