Alternative Assets

BEGINNER LESSON EXPLAINER

What Actually Counts as an “Alternative” Asset?

Alternative assets are everything outside the traditional stocks/bonds/cash trio — most commonly real estate, commodities (gold, oil, agricultural goods), and more recently cryptocurrency. You no longer need to literally buy a building or bars of gold to hold them: Real Estate Investment Trusts (REITs) let you own a slice of commercial property portfolios that trade like a stock; commodity ETFs track the price of gold or oil without you storing anything; and crypto exchanges and ETFs make Bitcoin and similar assets a few clicks away.

A useful analogy: think of your traditional stocks-bonds-cash portfolio as a well-balanced meal, and alternatives as the seasoning — a little can genuinely improve the dish by adding something the main ingredients don't have, but too much can overwhelm everything else.

Real Example: Gold vs. Stocks in a Crisis

2008 is the classic real-world illustration of why alternatives can matter. While the S&P 500 crashed, gold quietly went the other way.

	Gold (GLD)	S&P 500 (SPY)
Asset type	Commodity	Stocks
Full-year 2008 return	+2.0%	-36.2%

Same year, same global crisis — gold rose while stocks fell more than a third. That's the core diversification appeal of alternatives: an asset that doesn't move in lockstep with your traditional holdings can cushion a portfolio precisely when it's needed most. It's a real historical pattern, not a guarantee for the next crisis.

3 Alternative Assets at a Glance

Each alternative asset type has a defining real-world trait — here's one verified number for each, alongside the S&P 500 for comparison.

Asset class	Example	Key trait	vs. S&P 500
Real Estate (REITs)	VNQ	3.6% dividend yield	1.0%
Commodities (Gold)	GLD	+2.0% in the 2008 crisis	-36.2%
Cryptocurrency	Bitcoin	55.5% annualized volatility (2019-2024)	21.0%

REITs are legally required to distribute at least 90% of their taxable income as dividends, which is exactly why VNQ's yield runs well above a typical stock index. Bitcoin's volatility and max drawdown (-76.6% vs. SPY's -33.7% over the same 2019-2024 window) show the other side of “alternative” — some of these assets carry meaningfully more risk, not less.

5 Things to Know About Alternative Assets

1. Real estate through REITs is legally required to distribute at least 90% of taxable income as dividends — which is why REIT yields tend to run well above typical stocks.

2. Gold and other commodities have historically shown low or even negative correlation to stocks during crises, though this isn't guaranteed every time.

3. Cryptocurrency is dramatically more volatile than stocks or bonds — multiples higher, not just a bit higher.

4. Many alternatives are harder to value than a stock or bond — there's no earnings report or coupon rate to anchor a “fair price.”

5. “Alternative” doesn't mean “safer” — some alternatives, like crypto, carry meaningfully more risk, not less, in exchange for their diversification potential.

4 Things to Check Before Adding Alternatives

Size the Position Deliberately. Given the higher volatility of many alternatives, a common approach is keeping them to a small slice of a portfolio — 5-10% is often cited as a starting point, not a rule.

Understand What You Actually Own. A REIT ETF, a gold ETF, and a crypto exchange account are structurally very different products with different liquidity, custody, and regulatory risks.

Expect Bigger Swings. The same volatility that can boost diversification can also mean sharper drawdowns. A -76% drawdown, like Bitcoin's, is a real historical event, not a worst-case hypothetical.

Check the Fees and Structure. Some alternative products carry higher expense ratios, or storage/custody costs, than a plain stock or bond ETF. Compare the all-in cost, not just the headline exposure.

Worth knowing: none of this is a recommendation to buy gold, REITs, or crypto specifically — GLD, VNQ, and Bitcoin are used purely because they're real, well-known, and have public data. Past correlation and volatility patterns aren't guaranteed to repeat, and alternative assets in particular can behave very differently in a future crisis than they did in past ones.

Quick Check: 5 Questions

Answer all five before turning the page to check yourself against the answer key.

1. What are the three types of “alternative assets” covered in this lesson?

- A. Stocks, bonds, and cash
- B. Only cryptocurrency
- C. Real estate (REITs), commodities (like gold), and cryptocurrency
- D. Savings accounts and CDs only

2. Why do REITs like VNQ tend to pay meaningfully higher dividend yields than a typical stock index like SPY?

- A. REITs are riskier so they pay more by law
- B. REITs are legally required to distribute at least 90% of their taxable income as dividends
- C. It's random and has no structural reason
- D. REITs never reinvest any profit

3. In 2008, while the S&P; 500 fell about 36%, gold (GLD) actually rose about 2%. What does this illustrate?

- A. Gold always rises when stocks fall, every single time
- B. Gold and stocks are legally required to move oppositely
- C. The S&P; 500 and GLD track the exact same underlying asset
- D. Alternative assets can sometimes behave very differently from stocks, which is the core diversification appeal

4. From 2019-2024, Bitcoin's annualized volatility was about 55.5% compared to SPY's 21.0%, and its max drawdown was -76.6% versus SPY's -33.7%. What does this show?

- A. Cryptocurrency carries dramatically more risk/volatility than stocks
- B. Bitcoin is safer than the S&P; 500
- C. Bitcoin and stocks have identical risk profiles
- D. Volatility doesn't matter for long-term investors

5. What's a commonly cited approach to sizing an allocation to higher-volatility alternative assets like crypto?

- A. Put your entire portfolio into it for maximum growth
- B. Avoid alternatives entirely, always
- C. Keep it to a small slice of an overall portfolio, given the higher volatility
- D. Match it exactly to your bond allocation

Quiz Answer Key

1 C — This lesson covers real estate through REITs, commodities like gold, and cryptocurrency — three of the most common categories investors reach for outside stocks, bonds, and cash.

2 B — It's baked into the legal structure: to qualify as a REIT, a company must distribute at least 90% of its taxable income to shareholders, which structurally pushes yields higher than a typical company that retains more profit.

3 D — 2008 is one real historical example of an alternative asset moving very differently from stocks during a crisis — a real pattern, but not a guaranteed one for every future downturn.

4 A — Both Bitcoin's annualized volatility and its max drawdown were roughly 2-2.5x larger than the S&P; 500's over the same period — a real, measured gap, not just a subjective impression.

5 C — A small slice — often cited around 5-10% — lets you access the diversification potential of alternatives without letting their much bigger swings dominate your whole portfolio.