

Solution

1. Which of the following is not usually categorized in the alternative investments group?
 - a. Precious metals.
 - b. 15th Century Paintings
 - c. Small cap, publicly traded stocks**
 - d. Bitcoin.
 - e. Farmland

Explanation: The essence of alternative investments is that they are alternatives to publicly traded stocks and bonds. Small cap, publicly traded stocks don't fit the bill.

2. A key argument for investors adding alternative investments to their portfolios is that they have low correlation with financial asset classes. Which of the following statements about this correlation would you not agree with?
 - a. The attractiveness of the alternative investment class should be inversely its correlation with traded stocks and bonds.
 - b. Adding a lightly correlated alternative investment to your portfolio will increase the expected return on your portfolio.**
 - c. Adding a lightly correlated alternative investment to your portfolio will reduce the standard deviation of your portfolio.
 - d. Adding a lightly correlated alternative investment to your portfolio will increase the Sharpe ratio of your portfolio.
 - e. The correlations of an alternative investment that is non-traded can look artificially low, because of the non-trading.

Explanation: The primary pitch for a lightly correlated investments is that they will reduce your standard deviation, not that they will increase expected returns.

3. Real estate as an investment can take the form of traded investments (like real estate investment trusts) or non-traded investments (residential and commercial real estate). Which of the following belongs in the alternative investment grouping and why?
 - a. Traded real estate securities (mortgage-backed bonds, REITs)
 - b. Non-traded real estate (residential and commercial)**

Explanation: Traded real estate securities are part of the traded stocks and bonds universe. They are not alternative investments.

4. You can get historical returns on real estate, going back more than fifty years, using real estate indices like Case-Shiller. If you were to summarize what this data shows, which of the following would be a good summary.
 - e. High average returns with high standard deviation, relative to stocks.
 - f. High average returns with low standard deviation, relative to stocks.

- g. Low average returns with low standard deviation, relative to stocks.**
 - h. Low average returns with high standard deviation, relative to stocks.
 - i.
6. Looking at real estate returns, relative to other investment classes, across the decades, real estate outperformed stocks between 1970 and 1979. Which of the following macro factors best explains why?
- a. High real economic growth during the decade.
 - b. Low real economic growth during the decade
 - c. High inflation during the decade**
 - d. Low inflation during the decade