PacificCPE

COURSE
82002B

AI-Driven Strategies: Diverse Investing Opportunities

Looking beyond equities? This course examines the wide range of asset classes that matter to financial professionals advising on diversified portfolios. You'll work through hard assets and commodities, bonds, bank investments, and digital currencies—with risk warnings woven throughout to keep you grounded. Real estate investing and business and career ventures round out the coverage, showing how AI-driven strategies can inform smarter decisions across an impressive spectrum of investment types. A practical resource for any professional helping clients think beyond traditional stock and fund allocations.

CREDIT HOURS 2 | FIELD OF STUDY BUSINESS | EXAM QUESTIONS 10

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Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the risks associated with investing in commodities.
- Recall the highest potential bond rating.
- Identify the advantages of direct real estate investing.
- Recall the characteristics of 401(k) plans.

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Chapter 1: HARD ASSETS AND COMMODITIES

Chapter Objective

After completing this chapter, you should be able to:

- Recall the risks associated with investing in commodities.

Hold the phone! A chapter on hard assets and commodities in a highfalutin book on AI investing?! Yes!

Virtually all the purposes of money and related financial assets (such as stocks, bonds, cash, cryptocurrencies, and so on) are for current and future needs. Those needs ultimately include food, clothing, transportation, lodging, and more "stuff." As humanity keeps growing, our wants and needs grow with that. And most of the time, the needs and wants are met with commodities.

Commodities and hard assets are areas to which all investors should have at least *some* exposure because this is the essence of investing: putting your money in those things (supply) that will be met by human wants and needs (demand). And yes, AI will help you in your investing approach.

In this chapter, I want investors to think both about AI and a diversification away from stocks, bonds, and other paper/digital assets. Why? Because a truly diversified portfolio does have some exposure in assets that aren't dependent on counterparty risk as well as assets that are more dependent on "human need" versus "human wants." In other words, the types of stuff covered in this chapter are good, investable complements in a diversified portfolio.

Here I break down this "stuff" into two basic segments: precious metals like gold and silver (examples of hard assets) and the general commodity complex (examples include oil, corn, and copper). Yes, real estate is considered a "hard asset," but it's treated elsewhere in the course; see Chapter 3.

Remember

No matter how successful AI and other technologies become, they will always depend on commodities. Smartphones, laptops, flat-screen TVs, electric vehicles, and anything that runs AI or other software needs silver, base metals, silicon, and so on. What's that? All modern software and technology also need electricity? Yes, and electricity needs commodities such as oil, gas, coal, and the like.

UNDERSTANDING INVESTING VERSUS SPECULATING

In a chapter such as this, most financial professionals would tell you that the vehicles covered (precious metals and commodities) are very speculative and that most investors should avoid them altogether.

That was very true years ago when the most common way to participate in them was through the futures market, which is very risky and volatile. However, through quality stocks, exchange-traded funds (ETFs), and mutual funds, commodities investing has become more realistic and possible in many investing approaches.

Remember

For vehicles that are covered in this chapter, it's important to understand the distinction between investing and speculating:

- Investing: Investing means you're putting your money into assets that you understand and that have long-term value.
- Speculating: For the purposes of this book, speculating is a form of financial gambling. It's betting on the short-term price movements of a given asset.

Warning

There is nothing wrong with speculating, but it's risky. Speculating is not only about the investment or asset itself, but it is also about the person doing the speculating. If you're putting your money into an asset that you don't fully understand (especially the downside risks), then you're speculating. If you don't realize that a given asset or investment in a given market can plummet just as easy as it can rise, then you're speculating.

Another aspect to consider is your financial condition. If you're speculating with $10,000 in commodities futures, and you have a $1 million net worth, then you aren't speculating (not dangerously). But if you're speculating with $2,000 and your net worth is $10,000, now that is bad.

Remember

Understand your personal limits, especially if losses are a real possibility and could be life-changing. Speculating is fine when you are experienced and the amount won't severely impair your lifestyle.

COMPARING THE RISKS OF PRECIOUS METALS AND COMMODITIES

Many AI-related books are pouring onto your physical and digital bookshelves, and few of them (if any) are covering hard assets and commodities. So, why am I choosing to cover them?

> ***Remember***
>
> Diversification is a prime goal for any portfolio, especially in times such as now (war, inflation, debt bubbles, geopolitical crises, and so on), and the primary directive of diversification is *lowering overall risk*. In a world such as ours, you cannot eliminate all forms of risk, but you can eliminate or reduce many types of risk (financial risk, purchasing power risk, and so on) and mitigate it so that you're still safe and prosperous at the end of the day.

The following sections go over different types of risks as they relate (and don't relate) to precious metals and commodities.

What precious metals don't have: Counterparty risk

We face many forms of risk both as investors and as participants in our society and economy at large. For this section, I want to focus on a risk many financial pros may not realize (or focus on), which is *counterparty risk*.

Counterparty risk exists in assets whose value is reliant on a counterparty. This risk is present in all paper assets (stocks, bonds, currencies) and their digital equivalents. For example:

- **Stocks:** Stocks are only as good or secure as the value of the underlying company. This is why good long-term investors (including those who look at AI-related stocks, which are covered in Chapter 4 of course 82001C of course 82001C, Chapter 5 of course 82001C of course 82001C) always study the fundamentals of the underlying company. XYZ stock (a common stock usually found in stock investing books) is only as secure and as successful as XYZ the underlying company. You look at the company's profits, assets, market opportunities, and so on. If the company is losing money, drowning in debt, and so on, then the company will go bankrupt and the stock will ultimately become worthless. The stock is only as good as the counterparty (the underlying company).
- **Bonds (and other forms of debt):** This counterparty risk should be obvious. If the counterparty (the issuer of the debt such as a company or government entity) defaults on that debt, then the bond or other debt-related vehicle either loses value or becomes worthless. Bonds depend on the financial ability and the willingness of the underlying entity (the debtor) to pay back the principal and associated interest.
- **Currencies:** Yes, currencies have counterparty risk. If you have 100 units of a given currency (dollars, euros, yen, and so on), then you will assume those 100 units have value.

But what happens when the issuer (typically a national government's central banking authority) overproduces that currency? It has been very common throughout history that central banks tend to overproduce a currency (monetary inflation), and the currency loses value to the point that it becomes worthless. In that case, those 100 units of the currency become as valuable as zero units of the same.

Remember

Precious metals don't have counterparty risk. They have their own intrinsic value, which means their value isn't dependent on a third party such as a company or government agency. Given that, they tend to earn a spot in most portfolios since they have had sustainable value for thousands of years, and they retain their value even in times of economic decline or chaos. Keep in mind that this does not necessarily mean that precious metals don't have market risk — their prices can fluctuate — but the point here is that precious metals have never gone to zero due to some counterparty (such as a government or corporate entity). For more details and guidance on precious metals, check out the resources mentioned later in this chapter.

Commodities in general don't have counterparty risk since, say, a bushel of corn or a barrel of oil has its own intrinsic value. However, given the type of investment or vehicle, other risks may apply. The stock of an agricultural company that produces soybeans, for example, may have counterparty risk in the same way other publicly traded stocks have. More on general commodities appears later in this chapter.

Other risks associated with stocks and other conventional vehicles

In the previous section, I focus on counterparty risk because that type of risk is rarely mentioned in investment books and forums, but here I mention the risks with stocks and other conventional investment vehicles that all investors should be aware of:

- **Financial risk**: This is the most obvious risk, which is that the specific underlying company tied to your stock will go bankrupt at some point. This is why we focus on fundamentals (covered in Chapter 8 of course 82001C). In 2023, there was an explosion of AI-related stocks; keep in mind that AI isn't a guarantee of profit. You'll see some (many?) of these companies go out of business. The same risk exists with bonds.
- **Interest rate risk**: Many assets and vehicles may have interest rate risks. What if interest rates rise and that particular asset is dependent on low interest rates? In 2022 some prominent banks plummeted in value as interest rates rose because their investments were earning a low interest rate; meanwhile, for new deposits and certificates of deposit (CDs), they were paying a higher interest rate, and that created unsustainable losses.

Many investments are affected when interest rates are rising, such as fixed-interest rate bonds, which lose value in that scenario. If, for example, you have a 3 percent bond and interest rates reach 4 percent (and are still rising), the incentive is to sell your 3 percent bond and seek a bond (or other investment) with a higher rate of return. Real estate also is affected (see Chapter 3 for more information).

- **Inflation risk (also called purchasing power risk):** The value of investments such as fixed-interest rate bonds decline in a period of rising inflation. The reason is that if a bond is earning interest of 3 percent and inflation — through measurements such as the Consumer Price Index (CPI), covered in Chapter 1 of course 82003C — is at 4 percent and rising, then holders of the 3 percent bond have a market incentive to sell it and seek investments with a higher rate of return.

Remember

Other types of risk exist, so use AI tools (such as ChatGPT, covered in Chapter 2 of course 82001C) to research the risk profile of any investment you are considering. If you are using a financial advisor, then discuss any risks that a given investment carries or is exposed to.

Risks with precious metals

So, do precious metals have any risks? Let's ask ChatGPT about this. See Figure 9-1.

FIGURE 9-1: THE RISKS OF BUYING PRECIOUS METALS, ACCORDING TO AI.