by Kelly Edwards & Chris Edwards

SECURITY AND DIVERSIFICATION ARE BENEFITS OF TRUST DEED INVESTMENTS—BUT LOCAL MARKETS HOLD THE KEY TO BIG RETURNS.

Investing in Private Capital Trust Deeds

In its most basic form, a Private Capital Trust Deed investment is a loan, most often made by a private individual investor, which generally provides a more attractive return when compared to conventional investments. A Private Capital Trust Deed, commonly referred to simply as a "trust deed" or "deed of trust," creates a collateralized interest in real estate assets that serves as security for the repayment of the loan.

WHY CHOOSE TRUST DEED INVESTING

Let's take a look at three reasons why individuals find trust deed investing to be a desirable alternative for their investment capital:

1 PORTFOLIO DIVERSIFICATION

Savvy investors understand that a diversified investment portfolio is one key to successful investing, regardless of asset class. Financial advisers often fail to advocate trust deeds as a viable option for their clients' investment strategy. Trust deeds typically offer better returns than traditional investment options such as stocks, bonds and mutual funds. A trust deed property can add balance to an investor's portfolio—especially considering today's volatile economy.

2 HIGH-YIELD RETURNS

Trust deeds generate a desirable return with comparatively low risk for investors. In many cases, such investments realize a return from 8 percent to 10 percent or more, depending upon the terms of the deal. Returns are generally paid on a monthly or quarterly basis. Most often, the payments are interest-only with full return of principal at loan maturity. As an example, if an investor loans $100,000 to a borrower at 9 percent interest with interest-only payments, the investor would receive $9,000 in interest income over the period. The loan balance would pay off at its maturity date, with the original principal being returned.

3 SECURED BY REAL PROPERTY

A third benefit of trust deed investing is that the lender (the investor) has the peace of mind of knowing his or her investment capital is fully secured by a "tangible" real estate asset. Contrast this to nontangible or "paper" investments where the aggregate investment can be here today, but gone tomorrow. Real estate values may fluctuate, but barring a total catastrophic loss to the property (i.e., fire or hurricane), the physical asset still exists. In such cases—when properly insured—both the investor's capital and asset remain protected.

OTHER CONSIDERATIONS

The benefits of trust deed investing are evident, but astute investors shouldn't stop there. "Local market" factors should play a big part in the final decision to invest—or not.

THE RIGHT TERMS

No two real estate deals are alike. It's important for both borrower and lender (investor) to understand the terms of the transaction. The terms—including investment objectives, loan amount, interest rate (and type), duration of the note, and other repayment expectations—should be clearly defined and set forth in the closing documents.

THE RIGHT LOCATION

As the saying goes, a key to real estate investing is "location, location, location"—especially when your capital is on the line. This adage applies to trust deeds as well. Investors should become familiar with local and regional trends when analyzing investment market options. As a starting point, review online publications—such as Forbes or Money magazine—that list insightful "Best Places" and "Top 10" rankings segmented by city and state. Pay particular attention to economic indicators such as housing demand, job and population growth, and education base. Be sure to check out websites like Altos Research, which provide a wealth of actionable real estate market trend analysis.

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Playing It Safe

customers. Various regulations govern the collection and storage of financial data, in particular. Also, be vigilant in using someone else's code to build or augment the app for which you will be accountable. Finally, have a plan for monitoring vulnerabilities and administering security patches.

EVEN IF YOU'RE JUST USING AN APP...

The 2015 Mobile Threat Report from the Pulse Secure Mobile Threat Center analyzed more than 2.5 million apps to gauge the threat to consumers. The analysts found nearly a million attacks in 2014 on users' phones due to nefarious mobile apps, a 391 percent increase over the number found the previous year. One safeguard is to purchase apps directly from the app stores vetted for your type device. ●

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The Case for Diversification

REAL ESTATE IS A HARD ASSET

Real estate is a "hard" asset that has meaningful intrinsic value. Not only does the structure have value, so does the land itself. Well-chosen properties can provide some security that some value will be retained even if the property does not reach its full potential.

Hard assets are typically a strong inflation hedge and are also valued because they can be used to produce other goods or services. In these respects, real estate is generally considered a relatively strong store of value. Banks are more willing to lend against real estate than they are against stock portfolios, for example.

POTENTIAL HEDGE AGAINST INFLATION

Commercial real estate has been found to have a high degree of correlation to inflation as compared to other asset classes. As prices of goods and services increase in the broader economy, real estate can benefit, since rising wages and profits generally increase the amount that tenants are willing to pay for space. Those same factors also contribute to rising construction costs, so that replacement values tend to increase—driving existing commercial real estate prices higher as well.

DIVERSIFICATION

Commercial real estate offers two ways to diversify your investment portfolio.

- The return correlations of commercial real estate compared to other asset classes has historically been low. A drop in the stock market does *not* necessarily correlate to a fall in real estate. Commercial real estate is a longer-term play; extended lease terms, sensitivity to development activity and other factors give commercial real estate a meaningful ability to reduce portfolio volatility through diversification.
- Diversification can also be found *within* commercial real estate. Each major commercial property type has its own set of economic drivers. Offices are affected by job growth, multifamily apartments are driven by demographics, and business and leisure travel factors into success of hotels. Properties in different geographies can also help diversify a commercial real estate portfolio.

Finally, at certain crowdfunding sites, investors can participate not only in equity opportunities, but also in lending investments, where investors act in many ways like a bank.

TAX BENEFITS

The tax benefits of direct participation interests in commercial real estate can be attractive. If properly structured, deductions related to depreciation, interest expense and other items help to defer the taxes on cash distributions. These shelters can permit investors to receive a return similar to a tax-exempt bond—except that real estate returns have historically been substantially higher. Most of these tax benefits may be recaptured at the time of the property's sale, but in the meantime, investors may have tax-free use of the distributed cash.

Commercial real estate is the third-largest asset class in the United States, representing nearly 10 percent of the country's overall invested assets. No investment is guaranteed, of course, and a commercial real estate investment can lose value just like any other investment class. Commercial real estate has unique characteristics, however, and its ability to provide current cash flow, low volatility, a hedge against inflation, diversification, tax benefits and its nature as a hard asset all argue for its inclusion in an investment portfolio. ●

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Investing in Private Capital Trust Deeds

THE RIGHT PROPERTY

The choice of property type is another consideration for the trust deed investor. From single-family homes to large-scale multifamily properties, the final analysis depends upon the investor's appetite. Single-family properties in good condition, located in cities well positioned for economic growth, often appeal to investors. Relatively low investment capital outlay for single-family properties, which typically ranges from $50,000 to $100,000, is another lure for this property type.

THE RIGHT COMPANY

Finally, investors are wise to perform ample due diligence to seek out the right investment partner. Finding a company with whom the investor can align investment objectives is a critical starting point. Look for a firm that has a track record of successful investing—in dynamic markets—that are poised for fiscal growth. It's important that a company sync its investment strategies with individual investor goals and objectives.

Trust deed investments, collateralized by real estate, offer a unique advantage for investors to diversify their portfolio. Blended with the firm's expertise, such investments generate an automatic, secure and consistent income stream unlike comparable investment alternatives. ●

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The Most Important Decision in the Process

see all the possible fees and services you may need.

In selecting a provider, keep in mind that you are purchasing services, not a commodity. In real estate, you are trying to build your team. The provider should add value to your team. If you are getting conflicting information from your team (lawyer, CPA, etc.) your provider should be willing to discuss issues with them. If a provider's level of service is less than you need, there will be delays, and this will cost you money and maybe investments.

All providers should be able to tell you about permissible investments and prohibited transactions. The best providers will be able (and willing) to tell you about the structure of investments and contrast those investment purchases in retirement plans versus outside of retirement plans.

Remember, however, that SDIRA providers are not your advisers. They will not comment as to whether an investment is "good." A SDIRA is a sophisticated investment model and a powerful tool for building your wealth. Be sure to choose a provider that is in sync with your investment model and is a good fit for you. ●

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Thinking Outside the House

can range from $30 to $75 a month, depending on the time of year and location. We can usually get a rent concession for at least two months, so we don't have the lot rent costs.

My experience with mobile home investing made transitioning into mobile home park ownership that much easier. I already knew how various mobile home parks worked, what the local laws required and how the managers interacted with the residents and dealt with problems. It also helps to know how to evaluate mobile home condition and value, and whether the repairs will eat too much of your profit. I was able to identify what I liked and what I didn't about each park. Plus, I learned which mobile home parks were struggling and had motivated sellers.

Still feel like ignoring those calls from owners of mobile homes? Just remember that you can do more deals at one time, diversify your portfolio and get into the cash-flowing side of real estate that much faster when you invest in mobile homes on leased land. Now, you can take those mobile-home seller leads and turn them into a monthly cash flow of $100 to $500, instead of taking a loss. ●