The Buyline

September 2016 | No. 29

NoteSchool.com | ColonialFundingGroup.com | ColonialCapitalManagement.com

Learn Trade Invest

In This Issue

Thoughts from the Desk of…

Every year after the NoteExpo, we receive testimonials from attendees sharing their stories; whether it's making new connections, meeting key industry service providers face-to-face, or learning new valuable business strategies, the most satisfying feedback we can possibly receive is the fact that you've grown your note business.

"This was a high quality and enjoyable event. Especially appreciate this not being a sale-a-thon."

And that's exactly what the NoteExpo is all about. We live and love what we do, and we're excited about making new connections possible, bringing together top experts from all across the note industry to educate and advise all of us on how to take your business to the next level.

"NoteExpo was fantastic. Speakers had timely content."

NoteExpo 2016 is more than a conference. It's an investment in your future.

On behalf of the entire NoteExpo Team, I want to invite you to join us and hundreds of your fellow industry professionals for the 3rd annual www.noteexpo.com , hosted this November 4-5 at the Fort Worth Convention Center in Fort Worth, Texas.

When the leaders of the note industry meet in Texas – will you be there?

Bob Repass
Managing Director

The Trading Corner

Stay Disciplined

I was recently interviewed about our capital fund, Colonial Impact Fund-II, and was asked to describe our investing philosophy. Immediately two words came to mind: Stay Disciplined!

I guess I just hadn't realized until I was asked that as our fund continues to grow in size and volume, I have been thinking about discipline more than usual of late.

Discipline has always been part of my loan acquisition mindset. I guess that comes from years in the business working at several large institutional investors, each with different portfolio strategies which drove the investing parameters but all required the mentality of making disciplined decisions. I could not successfully navigate change in strategies without a healthy dose of discipline

Discipline, to me, involves the consistent and continual exercise of your best thinking, doing, and being in the pursuit of higher standards and goals. It also includes a strong dose of being able to withstand temptation.

In today's market there are new players entering and old players exiting every day. It does not take much discipline to just enter a market and pay more than everyone else just to buy up market share. To be successful long term, you must be in it for the long haul.

The Distressed Debt and Discounted Note industry is an ever-evolving and challenging environment. One of my most current challenges revolve around balancing sticking to our financial modeling and investment strategy with the shifting in the market dynamics and pressures of the disconnect between "bid" and "ask" in regards to pricing.

In order to sustain this discipline requires focus on two distinct areas:

SELF-DISCIPLINE

We always have to start with ourselves …

Self-discipline means I recognize and analyze the variables in each transaction and opt for what will move us closer to our goal over that which is easier.

CORPORATE DISCIPLINE

We did not build this ourselves …

Most of us operate in some way with others in professional alliances. Not only as part of our own organization but also with clients and vendors. Being consistent in your decision making creates trust between all parties.

Every member of our team knows and understands what we require in order to perform our due diligence and complete a trade. This is also true of our service providers that we engage with in order to obtain the information such as BPO, title report and tax certs we need to make decisions. Furthermore, our counterparties have come to realize that we will be completely transparent in our relationship and that we expect the same in return.

The discipline of transparency and accountability that comes with these kind of relationships creates the integrity that is an essential ingredient for success and that is a powerful thing.

STAYING DISCIPLINED

Our goal is to be the best of class in our space. Choosing to be the best you can be requires discipline.

As Chief Investment Officer for our fund, I must maintain certain requirements and operate at a higher standard of service and ethical behavior than someone who is simply investing their own money. However, whether it's "Other People's Money" or "Your Money", staying disciplined in your investing philosophy and strategy is mandatory.

MarketPulse

"Top Ten Things You Need to Know When Investing in Real Estate Notes with Your IRA"

By Martha Speed

I recently attended a class at the home office of Quest IRA in Houston, TX, specifically for investing in Real Estate Notes and Hard Money Lending within your Self-Directed IRA.

Nathan Long, CEO of Quest IRA, presented and shared stories about mistakes he and others have made in their IRA's and ways to avoid the pitfalls. It made me realize all of us will make some very lucrative and profitable investments in our IRA's; however, over the course of time most of us will make some type of mistake on an investment in our IRA's. While the presentation covered both creating notes and buying notes in your IRA, Nathan offered a "top ten" list of things to know that I thought was great information to share.

1. Never create a note or buy a note on something you wouldn't want your IRA to own. Remember you may end up owning this piece of real estate if your borrower defaults

2. If the loan goes into default, take action immediately. No one wants to admit a mistake but delaying action can be costly. Start foreclosure actions immediately.

3. Do not loan money to someone you would feel uncomfortable foreclosing on. If foreclosing on the borrower would cause you heartache, it is better not to make the loan.

4. Do not advance IRA money for home repairs until the repairs are finished. In creating notes on properties where the borrower may make repairs, i.e. a hard money loan, make sure any repairs are completed by ordering an inspection before advancing the money.

5. Collect monthly installments so you will know if the borrower is getting into financial trouble. Keep in mind that unless you have contracted for monthly payments, even interest only, you may not be able to foreclose; for example, the loan may not be in default on a quarterly or annual payment schedule.

6. If you are unsure about how to evaluate the loan, hire a professional or seek advice from someone knowledgeable in the industry.

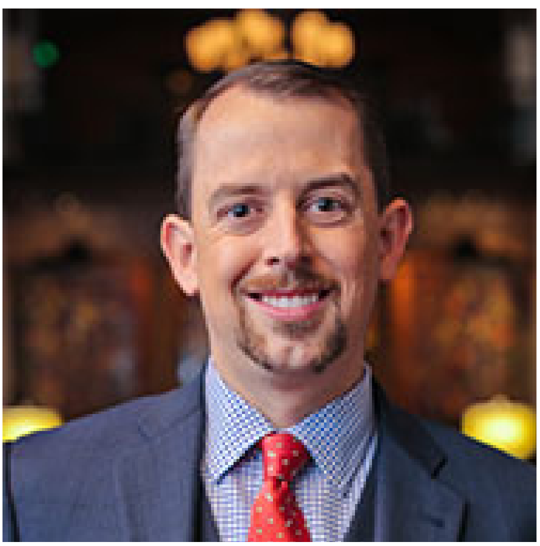
7. Get title insurance for the loan. The purpose of title insurance is to shift risk away from you to the title company when creating a real estate note.

8. Verify hazard and, if necessary, flood insurance is in place, naming your IRA as an additional insured. If something goes wrong you want to make sure your IRA is named on the check.

9. Insist that the borrower provide you with evidence of payment when property taxes, insurance, and homeowner's association fees become due and are paid.

10. Get a personal guarantee if you are lending to an entity or to an individual with some weakness. Circumstances change and a personal guarantee is always helpful in collecting debt, especially in situations where you may be creating a note.

Finally, Nathan always recommends getting a second opinion from a trusted co-worker or friend to find out if they would own the asset in their IRA.



Capital Markets Update

Are Your Investments Liquid?

by Ryan Parson

At a recent Motorhome & Money Tour meeting in Kansas City, I had the privilege of engaging high net worth investors, both long-time client-partners and new investors, in a discussion of the role of liquidity in one's portfolio.

The context of this discussion of liquidity was the bigger one of how much of one's net worth should be earmarked for 'alternative' investments, i.e. investments such as real estate or private placements that don't fit into the usual suite of Wall St. product offerings.

I believe it's an important question for an investor to ask, but unfortunately there are no universal answers to it, so I'll spend the rest of this newsletter exploring some of the nuances of the issue.

The context of this discussion of liquidity was the bigger one of how much of one's net worth should be earmarked for 'alternative' investments, i.e. investments such as real estate or private placements that don't fit into the usual suite of Wall St. product offerings.

Is there a good model for asset allocation?

Before we get much further into this discussion, I want to be clear about my perspective on how much a given portfolio should include a mix of stock, bonds, mutual funds… and alternative assets.

In short, I believe there is no credible (universal) model out there to determine how much and what kind of traditional and alternative assets an investor should hold. In fact, it's a deeply personal issue, determined as much by one's need for instant vs actual liquidity and direct access to deal flow as anything.

I realize that your financial planner may have a different opinion, however, so let's consider in more detail a point that he/she would likely raise if you asked about alternative assets, and that's liquidity.

Your financial planner will caution you against alternative assets like real estate, discounted notes, or startup or small, private growth companies because they are "illiquid." By contrast, a planner would say, in the traditional market, you can call your broker, ask them to sell your stocks, and the next day have cash back in your account.

Instant vs Actual Liquidity

Fair enough, but let's think about how we define liquidity in real-world terms.

It's certainly true that if you're invested in private equity deals such as real estate, you can't go and get cash in your account the next day.

But, would that ever really be necessary? Is needing cash – what I call "instant liquidity" the next day a realistic scenario for you?

Real-world questions

Here's how I would approach this issue with a fellow investor…

At the meeting in Kansas City the other day I asked an investor, "Do you need instant liquidity in order to be able to buy a new car on the spot? To finance an impromptu vacation? To make a surprise gift to your son or daughter? Is that how you define liquidity?"

"Or," I continued, "are you referring to your fear of the traditional markets (ie Wall-Street) tanking where you want to be able to cash out within 24 hours?"

I won't reveal this investor's highly personal answers to these questions, of course, but I'll say that through this conversation we were able to uncover why the notion of "liquidity" (as he was defining it) really mattered. Once he got clear on his beliefs about investing and liquidity, he was able to consider his options differently.

Liquidity as a function of your financial network

I've got one more point to make about liquidity that's again related to defining it personally…

My question to you is this: if you could reliably and predictably turn your alternative investment into cash within 30 days, would you consider it to be liquid? How about 45 days? 60 days?

What if you were connected to the right infrastructure where an asset that otherwise might be deemed illiquid was actually quite liquid over a 30-60-day timeframe?

As someone with a significant portfolio of alternative assets, I can attest that there are very few of them I couldn't liquidate at market values within 30 days if the need arose.
v
In my case, I have other high net worth investors on whom I could call if needed. What's even more interesting is that my "financial friends" could – and do – call on me for the same thing.

Parting thoughts

As you know if you've followed me at all over the past few years, I love the higher yields and risk-adjusted security that comes from alternative assets like real estate, alternative energies, alternative medicines and securing warrants in future public companies and while I acknowledge that I'm giving up "instant liquidity" with these components of my portfolio, I have worked to build an investor network that provides what I consider to be "right time" liquidity.

As always, this issue turns on one's own goals, timeframe, and beliefs about investing.

I'll leave you with this question…

If you believed you had actual (not "instant") liquidity in your alternative investment portfolio, how much of your wealth would you allocate into higher-yielding alternative investments?

To intelligent investing!

Quote of the Month

"Life is too short to just go through the motions. Discover your passion and do it to the best of your ability"

- Philip Rivers

Recommended Reading - Before the Fall

My wife Angie and I just returned from our summer vacation where for the 3rd year in a row we were able to enjoy a week of rest and relaxation in our little slice of paradise in the Cayman Islands. As we spend the days laying on the beach, I was able to read Before the Fall by Noah Hawley.

This is the first book of Hawley's, who is a well-known TV producer and writer of such shows as FX's award-winning series Fargo that I've read. In it, Hawley weaves 11 characters together that are on a private plane that crashes into the ocean leaving two survivors. Was it pilot error or an act of terrorism? Before the Fall is a fast-paced thriller with suspense right up until the final chapters.

Summer may be winding down but if you're looking for a good way to escape I recommend this book.

Upcoming Events

•Rich Rewards 3-Day Class – September 16-18 – San Diego, CA
•Women's Mastermind – September 15-18 – Spanish Fort, TX
•IMN Residential Mortgage Notes Symposium – September 22-23 – Santa Monica, CA
•Big Money 3-Day Class – October 7-9 – Newark, NJ
•5th Annual Appreciation Event – November 3, 2016 – Ft Worth, TX
•NoteExpo 2016 – November 4-5, 2016 – Ft Worth, TX