

**Market Decline Offers
New Investment Opportunities
by Tweed Financial Services**

For investors looking for a ray of light in today's financial markets, financial adviser Robert "Rusty" Tweed recommends taking a hard look at the debt instruments that sparked the current decline, real estate backed loans.

"One of the craziest aspects of the current financial crisis is that few of the collateralized mortgage obligations and other secured loans that banks are writing down truly have minimal value," Tweed says. "These are assets backed by real property, including the land itself, which have some value, just maybe not as much as when it was purchased or its loan value." Tweed is the president of Tweed Financial Services, an independent, comprehensive financial planning and investment management firm based in San Marino, California.

As large banks and institutions liquidate assets to free up cash or limit questionable debt on their balance sheets, a number of investors, such as Real Estate Investment Trusts (REITs) have stepped up to purchase some of these loans, explained Tweed.

"Presumably, they see in the current market, opportunities to acquire at a discount, assets that would normally be considered part of the bank's core portfolio. How long that window will remain open is a good question, but for now there are some very interesting deals in the market."¹

Recently, Tweed explained, he looked at a REIT that had purchased a senior \$94 million loan on a class A, 90% occupied office building for \$57 million - 61 cents on the dollar. "This is not an offer to sell the REIT. For starters that can only be made by prospectus with a lot of cautions included; it's just an example of the kind of deals that some investors are encountering."

Because REITs have established investment teams that are knowledgeable at assessing the desirability of investment properties for their own portfolios, investing in real-estate backed loans fits well with their skill set, said Tweed. "For the REITs, it is a simple question of asking, 'Is this a property we would like to have in our portfolio should it default, and if so, is the price right?'"

Another approach REITs are beginning to take is providing senior financing for real estate investors. "Just because the banks have a credit problem, doesn't mean there aren't still good borrowers and good deals out there," said Tweed. "REITs are another way to bring available funds and borrowers together at margins that didn't exist two years ago."

Providing funding to real estate developments with good fundamentals that are unable to obtain financing in traditional ways to complete projects is also a new REIT focus. These

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are projects that went back to the bank for their next round of construction financing only to be told, “Sorry, we’re not lending anymore,” explained Tweed.

“Realizing the past performance is no guarantee of future results, if you look back to the last time we have a real-estate based slump in the 1980s, you will find a number of investment managers who purchased mortgage obligations, loans and properties at a substantial discount and turned those assets into successful investments. Some of those same managers are back in the market today and packaging their investments as REITs,” explained Tweed.

Traded REITS are bought and sold similar to exchange traded equities on the national stock exchanges. Non-traded REITs are not publicly traded on a stock exchange, resulting in less liquidity, do not have daily pricing, and generally involve a higher degree of risk, but have demonstrated low pricing volatility. Janet Morrissey expanded on this in “Non-traded REITs offer stability amid volatility - but carry a price tag,” in the June 9, 2008 issue of *Investment News*.

When it comes to buying “opportunity” REITs, Tweed cautions investors that they need to do their homework. “Know the manager and his or her track record. What level of due diligence are they doing on the distressed assets they are purchasing? What is the risk of the portfolio? What measures are in place to protect investors?”

“If you have cash, there’s a wide spectrum of options opening up. You have an opportunity to take advantage of assets that are discounted not because of their underlying value, but because of the irrationality of today’s financial market,” said Tweed. “Just remember investing always carries risk and there’s always the possibility of loss as well as profit. Investors need to do their homework carefully or make certain they are working with an adviser who takes due diligence very seriously.”

¹ The material contained herein does not constitute an offer to sell or any offer to buy real estate or securities. Securities offers are made only by a prospectus, which is always controlling. There are material risks associated with the ownership of investments. Investments are subject to up-front fees and expenses that may impact investor returns and outweigh the tax benefits, the stated investment objectives may not be met, appreciation and income are not guaranteed and there is the potential for the loss of principal invested.

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