

103108 Goblins After Your Money
By Gary Case

Happy Halloween! I have a trick and a treat for you. First the trick.

As a portfolio diversification strategy, some investors have included real estate in the form of non-traded Real Estate Investment Trusts (REITs) or Public Limited Partnerships (LPs). Generally illiquid and sometimes long-term in nature, these investments can provide a buffer against portfolio volatility caused by stock and bond market movements since their value is generally carried at the purchase price for a number of years. REITs and LPs often produce cash flow and frequently that cash flow has inherent income tax advantages due to depreciation and other expenses.

During the holding period, some companies attempt to purchase REIT and LP shares from the original investor, often at a rather steep discount to the purchase price the investor paid. Investors sometimes sell to these companies because they are confused about the documents they are signing. As a rule, these companies hope to purchase the REIT and LP shares at a discount so they can receive the full value when properties are liquidated. Many times, selling shares early could result in losing some or all of any appreciation in the REIT or LP properties.

To be sure, there may be situations where investors need to liquidate shares in order to meet an immediate cash need. In that case, this “secondary market” can help generate funds through the sale of shares. I would recommend that course of action as a last resort.

Now for the treat. Scary and haunting market conditions may very well be giving way to the kind of bargains that might make you look very smart in the future. Prices on convertible bonds, high yield bonds, and mortgage securities may have been driven so low as to be worth taking a look at. Prior to making any decision to purchase, know enough about a potential investment to make an informed decision. If you rely on an advisor for purchase recommendations, ask for the thought process and justification your advisor has for recommending a particular purchase. As difficult as it is to time the bottom of any market, compelling prices may exist in many asset classes. Start looking and think about purchasing!

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