Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JANUARY 2018

Letter from the Editor

Happy new year! We hope 2018 sees you meet or exceed your professional and personal goals.

Here at Clear Sky Financial, we didn't wait until 2018 to exceed our track record. December was an incredible month for us, as we did a record 11 loans and a record volume of 2.720 M. We originated nine first trusts and two second trusts. Four loans were in Virginia, four were in Maryland, and three were in D.C. Our Loan to After Repair Value ratio continues to hold steady at around 65%, which is a very healthy indicator.

January appears to be another heavy month for originations, so stay tuned.

CHUCKLE'S CORNER

"I made my money the old- fashioned way. I was very nice to a wealthy relative right before they died." – *Malcom Forbes*

In This Issue:

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5 Key Wealth-Building Principles for Real Estate Investors

Real estate is an increasingly trendy investment. Prices are moderately low, interest rates are low, and opportunity is everywhere. But why is it right for you? Do you know the right investing niche for you?

Know Your Niche

Creating a niche is the most important process for real estate investors. We have many niches and they change as the markets change. For example, between 2009-2011 in Northern Virginia, we could buy new townhouses for between $150,000 to $170,000 and the rents were around $1,800. This satisfied our 100 times rent rule so we kept more properties in our portfolio. Soon after that, prices rose and rents stayed steady so we just flipped more properties.

When creating a niche, you need to determine if you are you an active or passive investor. Do you want to be active and involved in the day-to-day grind? Or do you like getting paid each month for the diligence you did up front, such as the buy-and-hold or fix-and-flip investor?

Wealth Building Principles

Knowing your niche is as important to real estate investing as it is to any business. Let's review the five wealth-building principles so you can figure out which ones fit your plan.

1| Income: Cash Flow
2| Deductions: Income from tax benefits
3| Equity: Tenants paying down your mortgage
4| Appreciation: 50-year national average is 6 percent per year
5| Leverage: Income generated by using other people's money

How to Achieve these Principles

Active investors who do wholesaling and flipping can indeed capture four of the wealth building principles while the passive investor can obtain all five wealth building principles. The big difference comes in the holding time. If you buy and quickly sell, you lose the long-term benefit of each of these wealth-building principles. Passive investors enjoy these benefits over the long term and they simply continue to compound. So, review the principles and get the right fit for you.

1| Income: Both passive investors and active investors can earn income from flipping, wholesaling or buy, rent, and hold.
2| Deductions: Passive (rent and hold) investors can deduct interest payments, depreciation, and costs associated with the business. Active investors (flippers and wholesalers) can deduct their cost of improvements and holding costs only.
3| Appreciation: Passive buy and hold investors love this one, as they can capture this for the duration of ownership. This is often considered the best wealth-building principles and one that has made many millionaires. Active investors capture some appreciation through the value-play of converting the property to its highest and best use.
4| Equity: Equity build up is when tenants pay down your mortgage. Therefore, this one is only for the buy-and-hold investor.
5| Leverage: Both active investors and passive investors can utilize leverage.

Diversity is Key

Seasoned investors who have mastered their skills have learned to navigate back and forth as the market dictates which strategy will work effectively in the current market within a defined location. These active investor strategies can be used to create quick chunks of cash to allow for more passive investments. Each investment category has benefits. Finding the niche that works for you, and accomplishes your short- and long-term goals is the key. You should always master your niche before attempting another.

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Can Bottom Feeders and Rodents predict the Top of the Real Estate Market?

The belief that animals can predict earthquakes and other natural disasters has been around for hundreds of years. In 373 B.C., historians recorded that animals, including rats, snakes and weasels, deserted the Greek city of Helice in droves just days before a devastating earthquake. Anecdotal evidence abounds of animals, fish, birds, reptiles, and insects exhibiting strange behavior anywhere from weeks to seconds before an earthquake.

When trying to predict a downturn in the real estate market, you have to take a look at what the most gritty and aggressive market players are doing. Oddly, all of the "bottom feeders" in the industry are very visible right before the peak. Here are some indicators that I have been watching.

1. Charlie and I attended a "working lunch" with about 30 real estate professionals in DC. The people putting on the conference were experts in condo conversion. Notably, they had assembled all of us to sell their knowledge, services, and "packaged deals". I can tell you with certainty that nobody sells deals that are worth keeping.
2. The most aggressive regular auction participants in the region are being outbid every day at courthouse sales and auctions. We watch all of the local courthouse auctions and follow who is buying what properties. There are several market participants that for more than 5 years have been outbidding us at auction. Now, those people are being outbid by a flood of new and inexperienced participants. The new players are willing to buy on very thin margins that don't allow for any errors or changes in market direction.
3. There is a group of successful former house-flippers whose name we see coming up all of the time. Those flippers have exited the flipping business and only sell deals and educational classes.
4. Community banks have loaned so much out to house flippers that they no longer have an appetite for that kind of loan product. In years right after the 2008 crash, those same community banks had opened their doors to the flip industry.

So, does this mean that I know exactly when the market will peak? No, I don't. But in anticipation of the market topping out, I recommend approaching investing with additional scrutiny. Understand how long you are committed to any deal and what will happen to you if the market adjusts in the next couple of years.

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FOOD FOR THOUGHT

Thank you to those who attended our winter party. You will receive this newsletter after the event, and it means a lot to us for all of you that can attend. It is our way of giving thanks to our investors on both sides of the fence. We hope you have a prosperous 2018!

DECEMBER DEALS

8412 Myrtle Ave

6608 Cimarron St.

917 Larchmont Ave.

6427 8th St. NW

7601 Poplar St.

7771 Oak St.

3914 Bryant Park Pl.

2725 13th St.

1596 Courthouse Rd.

6333 Goral Ct.

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