

# **AAII**

**LOS ANGELES MEETING**  
*SKIRBALL CENTER,*

*Saturday, July 17, 2010*

**COMBINING FINANCIAL AND REAL ASSETS**

**TO ACHIEVE**

**SUPERIOR**  
**DIVERSIFICATION AND PROFITS**

*Presented By:*

**ROGER H. SHAAR, BSME, MSAE**

PAST PRESIDENT, AAI,II,

LOS ANGELES CHAPTER

**FREQUENTLY DISCUSSED TOPICS  
WHEN DEALING WITH  
INVESTING IN FINANCIAL  
ASSETS**

- PORTFOLIO
- PORTFOLIO RISK
- EARNINGS / PE RATIO
- “CYCLES” OF ALL KINDS
- “AVERAGES” OF ALL KINDS
- ASSET ALLOCATION
- DIVERSIFICATION
- STOCKS, BONDS, CASH
- TIME HORIZON
- RISK AVERSION
- INDEX: S&P 500, DJIA, QQQQ
- FOREIGN VS. DOMESTIC INVEST.
- RECESSION, BULL / BEAR MKTS.
- ETC.....

**FREQUENTLY DISCUSSED TOPICS  
WHEN DEALING WITH  
INVESTING IN REAL ASSETS**

- BANK LOANS
- INTEREST RATES
- ROI/ROE, LEVERAGE
- REFINANCING
- DEBT TO EQUITY
- DOWN PAYMENT
- LOAN TERMS & CONDITIONS
- BALANCE SHEET
- APPRECIATION
- DEPRECIATION
- AMORTIZATION
- CAP RATE/EBITDA
- TAXES / TAX SHELTERS
- ETC.....

# THE VIRTUOUS CYCLE

## (THE AMERICAN DREAM)

DEPOSITORS                      INTEREST EARNED                      3 – 4 %

BANKS                                      INTEREST CHARGED                      6 – 9 %

INVESTORS                      RETURNS (R.O.I.)                      15 – 20 %

GOVERNMENTS                      TAXES, TAXES                      XXX %

GENERAL PUBLIC                      FREE & COMPETITIVE MARKETS

## (THE AMERICAN NIGHTMARE)

(VISA , AMEX,                      FEES, INTEREST                      -[10 – 25%]  
MASTERCARD)                      CHARGES

# CHANGES IN LAST 43 YEARS

(1967 - 2009)

## ANNUALIZED INFLATION RATE:

(1967 - 2009) = 4.53 %

<u>POPULATION - MILLIONS</u>	200	307
	<u>1967</u>	<u>2009</u>
NOMINAL GDP - \$ Billion	832	14,250
NOMINAL GDP RATIO	1.00	17.13
REAL GDP RATIO	1.00	2.66
NOMINAL PER CAPITA - \$	4,188	46,371
NOMINAL PER CAPITA RATIO	1.00	11.07
REAL PER CAPITA RATIO	1.00	1.73

# **REAL ASSETS INVESTING**

*(REAL ESTATE, FRANCHISES, PARTNERSHIPS, SMALL BUSINESS, ETC...)*

**FOR AAI MEMBERS, RELEVANT POSSIBILITIES DEAL WITH:**

- 1) INVESTMENT MANAGEMENT, NOT OPERATIONAL MANAGEMENT**
- 2) PART TIME ATTENTION, NOT A LIFE/CAREER CHANGE**
- 3) DELEGATION OF DAY TO DAY CHORES TO OTHERS**
- 4) PARTNERSHIPS ARE USEFUL TO LIMIT MAGNITUDE OF RISK**
- 5) CLOSE FAMILY MEMBERS ARE PRIME CANDIDATES AS PARTNERS, NEIGHBORS, CLUB/CHURCH MEMBERS, ETC....**

**NEED ATTENTION FOR GOVERNING LEGAL DOCS. OF INVESTMENTS**

# RETURN ON REAL INVESTMENTS (BEFORE TAXES)

<b>CAP RATE – (NOI / PRICE) %</b>	<b>10 %</b>	<b>10%</b>
<b>INTEREST RATE - %</b>	<b>7 %</b>	<b>6%</b>
<b>APPRECIATION - %</b>	<b>3 %</b>	<b>4%</b>

**LEVERAGE=D/E                    0   1   2   3   4**

<i>(BANK'S LOAN) - %</i>	<i>0</i>	<i>50</i>	<i>67</i>	<i>75</i>	<i>80</i>
<i>(INVESTOR'S CAPITAL) - %</i>	<i>100</i>	<i>50</i>	<i>33</i>	<i>25</i>	<i>20</i>

## LEVERAGE MAGNIFIES PROFITS

<b>1) CAP RATE - %</b> (INVESTMENT INCOME)	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>2) FINANCE - %</b> (ADDITIONAL INCOME)	<b>0</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>
	<b>0</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>16</b>
<b>3) APPRECIATION-%</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>	<b>15</b>
	<b>4</b>	<b>8</b>	<b>12</b>	<b>16</b>	<b>20</b>
<b>R.O.I. - %</b>	<b>13</b>	<b>19</b>	<b>25</b>	<b>31</b>	<b>37</b>
	<b>14</b>	<b>22</b>	<b>30</b>	<b>38</b>	<b>46</b>

**(RETURN ON INVESTOR'S CAPITAL)**

# **TAXATION**

**FOLLOWING MAY NOT APPLY IN ALL CASES.**  
**ALWAYS CONSULT YOUR CPA /ATTORNEY**

**CAPITAL GAIN: MAY BE DEFERRED IF  
1031 EXCHANGES ARE USED**

**INTEREST ON LOANS: USUALLY A  
DEDUCTIBLE EXPENSE**

**DEPRECIATION: IS DEDUCTIBLE BUT  
LOWER BASIS & AFFECTS CAP GAIN  
UPON SALE**

**CAPITAL IMPROVEMENTS: MAY BE  
DEPRECIATED PER SCHEDULE**

**REFINANCING: IS GENERALLY NOT A  
TAXABLE EVENT**

**THE ULTIMATE TAX LOOPHOLE:  
OCCURS UPON DEATH AND COULD  
PROVIDE TAX SAVINGS**



# HOUSEHOLD BALANCE SHEET VS. PORTFOLIO RISK

## \*\*HOUSEHOLD CIRCUMSTANCES\*\*

ASSURED HOUSEHOLD CASH INCOME

RESERVES- TIER 1

RESERVES- TIER 2

## \*\*INVESTMENTS & SAVINGS\*\*

**RISK-FREE ASSETS**  
(REWARD, NO RISK)

CASH – TIER 1 & 2

CASH EQUIVALENTS

QUASI-LIQUID ASSETS

**LIQUIDITY**

**RISKY ASSETS**  
(RISK, X% REWARD)

**FINANCIAL ASSETS**

REAL ASSETS

OTHER ASSETS

**DIVERSIFICATION**

# **WHAT MAY TRIGGER A DOUBLE-DIP RECESSION ?**

**U.S. NEWS & WORLD REPORT, JULY 1,  
2010**

- UNEMPLOYMENT**
- HOUSING**
- EXPIRATION OF STIMULUS**
- SPENDING CUTS**
- TAX HIKES**
- CONSUMER CONFIDENCE**
- CONSUMER SPENDING**
- EUROPEAN DEBT CRISIS**

**WHICH OF THE ABOVE WOULD INFLUENCE  
BUYING SMALL APT. BLDGS. IN BURBANK?**