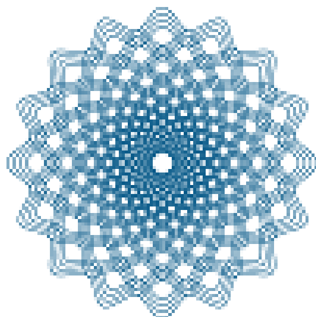
THE GOLDEN AGE OF TRUST DEED INVESTING

What Your Money Manager Isn’t Telling You



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The Golden Age of Trust Deed Investing

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HOW TO USE THIS BOOK AND DVD

Smart Financial Planning for the New Economy

“Somebody once said 'The biggest room in the world is the room for improvement." Make room in your life for improvement. And if you think you are already very good, look closely. You might still want to tweak a few things to make you better.”

- John Updike

The transcription and video training are meant to be used together. Some things that are on the video training are not in the book. We took the liberty to alter the book so it would read well without the video. However, to get the most out of the training and this valuable information, it’s best that you take the time to watch both the video training and read the book in its entirety.

We hope you enjoy this training and wish you all the luck and success in the private money trust deed realm. You’ll find that by having this new tool in your real estate and investing arsenal, you’ll have better luck finding and funding great deals in the very near future.

Happy Investing,

William Jordan, President of William Jordan and Associates and

Lee Arnold, CEO of Secured Investment Corp

INTRODUCTION BY LEE ARNOLD

CEO of Secured Investment Corp

Hi. This is Lee Arnold, CEO of Secured Investment Corp and Private Money Exchange. I'm thrilled that you're taking the time to watch this critically important video featuring the highly sought after Registered Investment Advisor, William Jordan. Before we start though, I strongly encourage you to close the door, turn off your phone, and eliminate any distractions, because what you're about to see and read in the next 90 minutes will change the way you look at banking and investing forever.

As you're well aware, conventional investments are earning historic low returns. The truth of the matter is that right now you're probably getting less than 1% on your bank CDs—but your bank, ***using your money***, is getting as much as 15% on unsecured loans!

In this video, you're going to learn how ***YOU*** can be the bank and use your ***OWN*** money to earn ***YOURSELF*** higher returns. It's a whole new approach to investing and it's earning people upwards of 8-12 % annualized returns (if not more).

It's called Private Money Lending. You're doing exactly what banks have done with your money all along, but **YOU'RE** the one in control of your finances and **YOU'RE** the one earning the higher returns.

You're always in first-trust deed position ***AND, as you'll see in this video,*** we offer you a Buy-Back Agreement, which allows you a loophole or saving grace to get out of a loan gone sour (although, even this, rarely happens).

Secured Investment Corp and Private Money Exchange were designed to give ***you*** the most tools to be successful and help you earn the highest returns on your own hard-earned money. With 45 years of combined specialized loan expertise, we have built an elegant, yet comprehensive education program and this is **YOUR** chance to finally be an integral part of it.

INTRODUCTION BY LEE ARNOLD

What and Why

So, take 90 minutes and listen to William Jordan, a nationally recognized author and expert in the fields of wealth management and financial planning and a strategic partner of Secured Investment Corp. He will show you the lucrative merits of investing in first trust deeds and how you can easily begin earning substantial returns today.

Make sure you watch the entire presentation though. Not only will your time be well spent, we also have a Free Gift for you to enhance your financial growth. I'll see you at the end of the video.

THE GOLDEN AGE

Of Trust Deed Investing

We have a lot of ground I want to cover in today's presentation. I'm going to try to take a lot of information and pack it into as short of a period of time as possible. But also, feel free to ask some questions. If I say something, and you think that doesn't quite make sense, ask me a question. I'm not going to lose my place or forget what I need to talk about.

I want to make sure you also walk out of here equipped to, as Lee said, be more powerful and more effective in what you are doing in your business on a day-to-day basis. And by the time we're done today, you're going to have an idea of why I call this "*The Golden Age of Trust Deed Investing.*"

The main goal I want to make sure you walk out of here with is understanding of why William Jordan, a financial advisor, a wealth manager, and someone whose job it is to look at all different kinds of investments, thinks that first trust deeds, and specifically those issued by Secured Investment Corp, are the best place to be putting the most significant part of your investment portfolio.

> **"First trust deeds today, and specifically those issued by Secured Investment Corp, are the best place to be putting the most significant part of your investment portfolio."**

We're going to talk about why first trust deeds are my favorite investment right now and how they can fit inside any investment portfolio. We'll then break that down into a couple of different investing directions.

First, I want to touch on my background in the financial arena. I'm not going to give you my whole song and dance, but you should know that I started in the financial planning business about 15 years ago. I got married 17 years ago, and when Tiffany, my wife, got pregnant, I

thought, "You know I need a career that I can settle down in and we can raise a family in and is something I can hopefully have fun with what I'm doing." I believe that if you enjoy what you're doing and you're helping people, then it doesn't really feel like work. To achieve this end, I chose the financial planning business. It's both fun and rewarding because I get to help a lot of people become financially free.

Which leads me to trust deeds. I want to talk about my early experience with trust deeds because I think it will give you a lot of insight as to why you might be seeing some hesitancy with folks who you are talking to about investing in trust deeds. I also want to give you an idea of what they are hearing from other professionals and why these professionals might be saying what they're saying.

FINANCIAL PLANNING

A Re-Education of William Jordan

I effectively started my career with a Wall Street firm where we offered stocks, bonds, and mutual funds. When I started in the financial planning business, I was shipped off to training because I knew nothing about investing. I did not grow up with wealth nor did I initially have a lot of money. I had no background in finance whatsoever. But, I liked helping people, I liked math, I was good with numbers, and I had made a bunch of dumb financial mistakes in my young adult years. I thought, "Well if I could help people avoid the stupid mistakes I have made, then I would feel like I had accomplished something rewarding."

So I went off to train on how to become a financial advisor. Now let me tell you, when you go to be trained as a financial advisor what that really means is you are taught how to sell mutual funds—but not how to be a financial advisor. I thought being a financial advisor was about learning all kinds of financial strategies. But that's not how the Wall Street firms train you. They train you on how to sell the investment products that they offer. It only makes sense since that's the business that they're in. But it's important to

understand that distinction, especially when you're talking to someone who's maybe considering a trust deed and they say, "Well let me run this by my financial advisor." Anyone ever heard that comment before? When they say that, it sounds perfectly reasonable, right? But what is the mindset that the financial advisor will bring to that conversation?

I'll tell you where I started. I would run into folks as I was out trying to sell mutual funds. And I really thought I was doing financial planning at first. It took me a while to realize I was just selling mutual funds. So, I would run into folks and they'd say, "William, I'm really not interested in the stock market or mutual funds. I'm making a lot of money in my trust deed investments." At the time, this was back in the mid-to-late 90's, and it was often second trust deeds primarily. They would say to me, "I'm making 12% and it's very safe." So, I went to the regional manager in my area and I asked him, "Well, what do I do? How do I handle this because obviously we want them to be investing in our mutual funds?" He would give me a number of reasons as to why they should not be investing in trust deeds. It only took me a conversation or two with him to figure out, and I'm a reasonably smart guy, that these are not really reasons why they should not be investing in trust deeds. These are sales tactics to scare them into thinking that trust deeds are bad. It turned out that these were pretty good investments. Unfortunately, my hands were tied at the time and I couldn't offer trust deeds to my clients.

Now let's fast forward to 2004 when I took over the ownership of the company that I run today from another financial advisor I'd been working with. In the beginning, I was still not recommending trust deeds. In fact, it was interesting to hear Dave Stech's earlier presentation because he and I have a lot of similarities, and I was glad to finally find at least one other person who lived in Southern California in 2005 who was actually telling people that the real estate market was about to crash. I literally thought I was the only person. I could not tell you how many arguments or debates I had with real estate and mortgage brokers, as well as financial advisors, CPAs, and the people that lived on my street who, when I told them real estate was going down, they said, "William you are absolutely insane."

In the middle of 2005, I sent out a letter to my clients saying, "If you have real estate that you planned to sell it in the next five to seven years, get rid of it now because the real estate market is going to tank and it's going to tank pretty big." I initially said 30% and I was wrong. It was

worse than that in California. Yet, everybody thought I was absolutely crazy. I don't know if I should say thankfully, or unthankfully, but the real estate market finally did head down before all of my clients bailed on me. Initially they had figured, "William, if you don't understand real estate, which is pretty straight forward, how can you advise me on the rest of my investments?" So first they thought I was an idiot, then they thought I was a genius. The truth is more likely somewhere in between!

So obviously in 2004 and 2005, I was still not offering trust deeds to my clients. Because the trust deeds that were available then, are not the trust deeds that we're going to talk about today or that we're investing in today. You've seen or heard the commercials over the years, "This is not your grandfather's Oldsmobile." Well, this is not the 2000's version of trust deeds. We'll talk more about that in detail, and cover why this is the case and why they are so different.

I was out of anything related to real estate until, again coincidentally, very similar to Dave, I got back into it in 2010. I literally explained to my clients that I am selling out of real estate. We sold a duplex, which we had literally rented as a personal residence until 2010, because I had previously gone to my wife and I said, "Okay here's what's going to happen. We can ride it out and if you own a piece of real estate, you're going to probably own it for 20 years, and that's not the end of the world. We can sell our real estate and then potentially buy back 10, 15 or 20 properties, or we can hang on to our home, hang on to a duplex, and just ride it out."

"I'm a fan of real estate and trust deeds as investments. And as I've learned over the years, that is a very unique belief system for a financial advisor or a wealth manager to have."

And, being the incredibly wonderful person she is, she agreed with me. We waited until the end of 2010, to not only buy back into the real estate market from a personal residence standpoint, but to actually begin buying investment real estate too. It was around that time that I also started advising clients to start buying back into the real estate market.

TRUST DEEDS

Getting Over the Common Financial Advisor Mindset

So, to make a long story short, I'm now a raving fan of real estate and trust deeds as investments. And, as I've learned over the years, that is a very unique belief system for a financial advisor or a wealth manager to have.

When I talk to people and tell them how much I love real estate, and how I think everyone should own at least one investment property, most people question whether or not I'm a real financial advisor. Why would a financial advisor, who is supposed to be talking mutual funds and bonds be talking real estate, right?

The reason is: It's a great investment!

When you are talking with people about trust deeds or real estate, or you're trying to make inroads with a financial advisor, or you're talking to someone about investing in a trust deed and they are running it by their financial advisor, do **not** expect to get a positive response. Why? Because generally they can't make money on that recommendation.

If I tell someone, "Yes, you should buy an investment property." They are going to take that money out of the account I manage for them and go buy the investment property. Now, I have a, what's called fiduciary obligation to them, so I feel I have a moral, financial, legal obligation to give them the best advice, which is to buy investment real estate. But that's not the standard that all financial advisors are going to work under.

I believe there are two different camps in financial advisement. Just a caveat: I'll poke fun at financial advisors, stock brokers, mutual funds sales people during this presentation, because I am no longer in that camp. I run a Registered Investment Advisory Firm. My associate Kevin and I are RIAs : Registered Investment Advisors. What this does is change the relationship we have with the client. We can now recommend what's in the client's best interest based on

everything we know, which sounds like what a financial advisor would and should do, right? Except the financial advisor has only the legal obligation to recommend something that's appropriate. It's called the suitability rule.

> *"Well, this is a mutual fund, it's suitable. You are 80 years old and you are retired and you don't want to take any risk. This mutual fund is "mostly" suitable, so I can recommend that."*

Exactly! Throughout this presentation, I will throw Wall Street under the bus a few times, and we'll all have a little fun at their expense.

Now that you understand my background, you'll understand, why I am talking about trust deeds and how they fit into financial investing. This is **not** the conversation you'll hear from other financial advisors and wealth managers. However, understand that there are some, mostly in the registered investment advisor world, who will agree with me and who will say some of the same things. Even if it is not something that they can make money on, because we have that obligation.

Before I get too much further, let's be very clear and let's draw a line here. I do not work for Secured Investment Corp. I am not on staff, nor am I am on retainer. I run my own Independent Financial Advisory Firm. I could select any company that does what Secured Investment Corp does. I could select any company to buy trust deeds from. There are a number of companies around the country that do that. I happen to think that there are some unique distinctions about Secured Investment Corp and that is why more than 90% of the trust deeds I've acquired for my clients come from Secured Investment Corp. Some of those reasons are because of the research and the due diligence they put into every file that goes through their doors.

Also we'll touch on the Buyout Agreement towards the end of our conversation today. But let me ask you to think about this as we go through this presentation, do you think I would be comfortable offering a Buyout Agreement if I was not comfortable with the quality of their research, due diligence, underwriting, and the meticulous nature they apply when offering those trust deeds?

I'm really glad they do that kind of work, because that's not kind of work that I want to do. I'm not an expert in issuing trust deeds and offering mortgages. That is not my primary skillset. You've heard a number of comments during this seminar about finding your primary skillset and then outsource the other things. I gladly outsource this.

They have a commitment to protect both the borrowers and lenders because they realize that this has to be a win/win situation for everyone involved. So, if they're not offering a great product for the people who are buying the property and borrowing the money, then the borrowers won't bring their deals to the table and lenders, like yourself or myself, who would like to put money in the trust deeds, will have nothing to invest in. They have to make it a fit for everybody. I also really like their shorter terms. I don't really like long term, five- or ten-year types of investments. Instead, it's something that you can have a good amount of liquidity in, without tying up your money for a long period of time. And, as you know, liquidity is a very valuable factor in the investment world.

TRUST DEEDS

Not All Are Created Equal

Let's talk briefly about trust deeds as an investment. You're probably familiar with what trust deeds are, so I'm not going to spend a lot of time on this subject as far as where they came from and why they've been around, just know that they've been around for ages.

When I run into folks and mention a trust deed as an investment, the conversation often goes like this, "Wow, that's new. Where do I go to learn more about that." And I say, "Well do you have a mortgage on your house? Yes? Then you already know how this works." It's very straightforward. It doesn't require a lot of explanation. You'll find that people are always asking for materials or handouts. All you have to do is just make this really simple: if you know how a mortgage works, then you basically know how a trust deed works.

First, Second, And Third Trust Deeds

There are first, second, and third trust deeds. Do you understand the difference between them? It is just the order of priority of who has the claim on the property if the borrower defaults? So, first positions are always going to be the best case scenario.

When I started talking to people about trust deeds in the late 90's, there were no investors who were investing in first trust deeds. That loan did not exist for the individual investor. The banks were doing those loans, while the individual investors were generally doing second or third trust deeds. So, this is a phenomenal time because you're actually lending money in first position. That is *ridiculous*, as far as the level of security that it provides to you as a lender.

"This is a phenomenal time because you're actually lending money in first position. That is *ridiculous*, as far as the level of security that it provides to you as a lender."

I have seen some real estate deals (trust deeds) that have been done through other financial advisors where they were in second position. Here's what happens. They have a small, let say a 10 percent note in second position. There is a 50 or 60 percent first and then the property defaults. If you're in second position, you're in a horrible spot. If you have invested 10 percent in the second position, you now have to go out and raise the money to buy out and be in the first position. It puts you in a really tight spot. Many people lost money in trust deeds in 2007, 2008 or 2009 because of these types of scenarios—they were late in the trust deed seniority and they lent way to much from a loan-to-value ratio.

Properties Are Value Dependent

It really comes down to, "What's the value of the asset?" If we've got a value, if the appraisal is close (plus or minus a little bit either way) then you've got the information you really need to be able to make a decision. Security Investment Corp doesn't stop

there, but to an extent, that's really what it boils down to because we are in the ***Golden Age of Trust Deed Investing***.

A Rating System for Trust Deeds

I would say the problem in explaining trust deeds, or talking about trust deeds, is we really need a rating system. Has anyone invested in bonds? You bought a bond or a bond fund? Bonds have rating systems. Triple A is the best, there's double A, and A with pluses and minuses thrown into the mix. It determines, or it supposed to imply, the level of risk or what is the likelihood of a given bond defaulting? Because that is the risk in a fixed income investment, right? That there's going to be a possible default and you could potentially lose money because of that. We'll talk about that in just a moment.

So in bonds, if it's insured, if there's a certain municipality or corporation that has sterling credit, like if Apple is issuing a bond and they've got a hundred billion dollars of cash sitting in the bank, that bond probably has a triple A rating and the risk of them not paying the money back is going to be very small. And then the rating goes down to double A, single A, and then below that, as the risk increases. Well, with trust deeds you have to think in those same terms because today we are talking about what I would call **Triple A Rated Trust Deeds.**

In 2005, they would not even have fit in the A rating system. They would have been subpar, somewhere in the B rating arena. We would have called them "junk deeds or junk bonds". So, it's a totally different animal than it was five, six, or even seven years ago because of the environment.

Now, I'm not going to go into all the reasons of why that is. You probably know the reasons as well as I do, but these are the facts that you need to be aware of. When you're talking with someone about trust deeds, you need to explain that this is not the same as the trust deed that was issued in 2005, which was in third position with a 90 or a 100 percent loan-to-value. Those were the trust deeds I would have talked someone out of and said, "Are you kidding me, what are you thinking? Do not do that because your

whole bet is that real estate is just going to skyrocket upwards from here and that everything is going to be okay." That doesn't work.

"Another item that helps increase the rating in today's trust deeds is that the investor (borrower) has their own money in the deal. They are also taking a risk."

Another item that helps increase the rating in today's trust deeds is that the investor (borrower) has their own money in the deal. They are also taking a risk. So, if they're willing to put their money on the table, and I'm behind their money, that gives me an awful lot of confidence.

I also love when a property is already generating income. If we have to take that property back, it already has an income string built in. The comment was made, and I don't remember if it was Dave or Lee, but it really comes down to "Would I buy that property at this price that I'm lending on the trust deed?" In most cases, that answer is "Yes!" If that is the case, that puts the trust deed up in, what I call, the "Triple A Rated" category.

CHANGING TRUST DEEDS

In a Changing Market

We have already talked about this, that trust deeds are not the same as they were a few years ago, so I won't belabor that point. But understand that the real estate market has changed dramatically. In the early 2000's and late 1990s, I was a big fan of real estate and everybody was saying, "Wow, William you're the only financial advisor that talks about real estate." By the mid 2000s, I was telling everyone to get out of real estate. "Wow, William you really hate real estate."

In 2010, I did another about-face and had all our clients together in a workshop about where the investment trends were heading. I was telling people again, "This is the time to start getting back in the real estate." My poor clients were probably confused and thinking, "William, I thought you hated real estate?" I'm not a flip-flopper, I just take what the market gives me.

Right now the market is giving me a tremendous amount of opportunity. This is not the time to evaluate, to research, or to consider. This isn't the "maybe moment." This is the "Yes Moment." This is the Golden Age of Trust Deed Investing and I would argue that probably goes for real estate investing as well.

> **"The market is giving you a tremendous amount of opportunity. This is not the time to evaluate, to research, or to consider. This isn't the "maybe moment." This is the "Yes Moment." This is the golden age of trust deed investing."**

At some point, that window of opportunity is going to end. In the next 10, 20, 30, 40 or 50 years, people are going to be saying, "Gosh, do you remember back in 2012? Oh man, if I could go back to 2012 and buy real estate I would be rich!" You're sitting in this room right now (or reading this transcript and watching the video), so you are without excuse. If you're not buying real estate or buying trust deeds with both hands right now, I don't know what it would take for you to decide that you're actually excited about it!

Now, remember I can offer *any* investment to my clients—pretty much any investment out there. There are almost no investments that I would choose not to offer, depending on the environment, and I charge a fee that's the same regardless of the asset that I manage. So, I have no axe to grind about real estate, trust deeds, stocks, bonds, etcetera. If this were the bottom of the stock market in 2008, I would tell people to buy stocks. We'll talk about stocks a little bit later on because there's opportunity there, but there's also a lot of risk. I'll give you a couple of innovative ways that you might be able to handle your stock portfolio, and even how to fold in trust deeds too.

So, I think I have spent enough time prepping you on trust deeds and bonds, and the similarities between them. They fall under the umbrella of fixed income investments. Every portfolio that a financial advisor designs, they usually talk about the stock portfolio or the equity portfolio. When they say equity, they mean stocks, not real estate. The fixed income portfolio usually mean bonds. We'll design that portfolio a little bit later in the presentation.

TRIPLE A RATED TRUST DEEDS

& The Buyout Agreement

To reiterate, today's trust deeds are triple A rated. Which is why I created the Buyout Agreement. When people first hear about this document, they are surprised that someone is willing offer it. Why would someone in their right mind take on all the risk, right? In fact, I think a young lady up here in the front row yesterday was saying at the end of the day, "Wow, that Buyout Agreement! That turned out to be a pretty good deal for them." The Buyout Agreement allows you choice, which makes it nice for you because you have the choice either way. And, it didn't require some tremendous amount of thinking on my part. The Buyout Agreement really is as much of a no brainer as you're going to run into. We'll talk about that again before we're done. However, as I talk about trust deeds, you'll understand more and more why I readily offer this agreement.

Trust deeds have a low loan-to-value, they are in first position, provide great income, and have a low relative risk. If you're going to custom design an investment, it would be today's first trust deed.

If you're looking at real estate as an investment, some people end up stopping because they don't have the time or because they feel like they don't have the expertise. Investing in trust deeds is a way to at least get in on some of the action of the real estate market, without having to do the heavy lifting of finding the properties yourself.

If that's your plan, then first trust deeds are for you. You just write the check and you're done. We'll even talk about how to make it even simpler than that! We can bring this all the way down to something that is as much of a no brainer as opening the Roth IRA that we saw the other day, except that the interest rate is going to be a heck of a lot better!

Again, I will say this phrase over and over because I believe this to be fundamentally true, we are in the **Golden Age of Trust Deed Investing**. I wrote a very simple book on the subject of First Trust Deed Investing and why it is the golden age of investing. It's called ***The Seven Percent Solution*** and it's available on Amazon. We'll send it out to people as an e-book. I believe that Lee has an e-book version that he has made available on occasion as an add-on to his programs. It's designed for somebody to sit down and read it in an hour. I didn't try to write it to impress people on how many pages I could fill. I tried to write it to impress people on how short and succinct I could be on this topic. There's just not a lot of moving pieces on this subject.

I don't think I talk about trust deeds in the upcoming book that's being released in September. It's called The Success Secret and it's with Jack Canfield of Chicken Soup for the Soul. I'm a co-author with him on his latest book of Success Secrets and he interviewed a number of experts around the country in different areas of expertise about some of their secrets for success. We'll even talk about a few of those in our conversation here today.

DESIGNING A PORTFOLIO

Diversification is Key

Let's talk about the benefits of diversification. Everyone should know this principle. It is so foundational, and yet I cannot tell you how many times I see people try to go against the grain of diversification. Simply put, it's the: "do not put all your eggs in one basket" rule. I actually have two rules in financial planning and managing wealth. There are just two rules by which I run my business and work with my clients. This helps them

understand the thought process that I'm going to bring to the table and the direction I'm going to go in the management of the client's assets.

Rule Number One is Do Not Lose Money. "Duh, right?"

But how many times have you lost money? How many times has a financial advisor lost money for his/her clients? I mean, financial advisors, especially the mutual fund sales people, get a pretty bad rap. I have seen a lot of financial advisors who have managed million dollar account, for their clients. Who, through their skill of management, have turned that account into a million bucks. Now, all they had to do was start with two million bucks, and they turned it into a million bucks in an amazingly short period of time.

"The Rule of Diversification is NEVER put all of your eggs in one basket."

Kidding aside, there is tremendous benefit in diversification. I forget the name of the gentleman right now, but in 2007 the richest man in the country of Ireland was on the Forbes 400 Billionaire's list. He had a net worth of seven billion dollars or something like that. Most of us could probably make due with seven billion dollars, right? I could probably take the interest he earns off of that and just use that to earn interest, and I could probably make due from that. So, this pretty affluent guy became the richest man in history to file bankruptcy. Why? Because he put all his eggs in one basket. He tried to engineer a takeover of some banks in Ireland. Then 2008 came and blew up the whole system. He is completely out of business. He became bankrupt and then was sued for something like 350 million dollars. I guess if you're going to go down, you're going to go down big! All he had to do is listen to one of my presentations and learn about diversification. It's as simple as, "How about you just keep one billion over here, and leave the other six billion in the bank," right? Wouldn't that have made more sense?

Learn from his mistake and follow the principle of diversification.

> **"You have to figure out how to become dispassionate in the pursuit of real estate, trust deeds, wealth accumulation. It starts with diversification."**

One of the things that Registered Investment Advisors do for their clients is they talk them down from trying to break some of these rules, because let's face it, money is emotional. I so appreciate the point that Lee made a short time ago, which was don't ***need*** the deal. You just find the deals that are great and do those deals. When you get emotionally attached to that deal, when you need to make that deal happen, when you have put so much time into that deal that you've got to get *something* out of it, that's when you start making mistakes. You have to figure out how to become dis-passionate in the pursuit of real estate, trust deeds, wealth accumulation. It starts with diversification.

I always like to point this out with clients. Going to your financial planner is kind of like going to see your psychologist. For me, it's almost like reading minds in a way. People will come to me and I will say, "What do you want your money to do for you?" And they give me a stare... "I don't know, I just thought that I'm suppose to invest it." "Why are you investing your money in the first place?"

It is important that you start with a plan. "Where am I heading? What do I want my money to do for me?" I have seen folks make financial investment decisions that they would never have made if they had started with a plan and could answer the question, "Why am I investing in the first place?"

I often have conversations with clients that sound like this. "If you could put your money in the bank at .0 percent. If you could then earn one or two percent on your money for the rest of your life, and accomplish all of the financial goals you have, is there any reason why you should be taking risk on investing money in the stock market or things of that nature? Would you be open to that? And that's a really interesting

question because what is the purpose of investing in the first place? It's to create income. What's the income for? That's the question you have to answer. If it is just to accumulate money until the day you die, you'll probably be thinking, "Wow, I accumulated a lot of money but that didn't accomplish anything." Money is not the goal. It's the tool that is utilized. The point has already been made that money can come and go. It's what you do with it. What do you do with the income that you can generate from it?

"Money is not the goal. It's the tool that is utilized. The point has already been made that money can come and go. It's what you do with it. What do you do with the income that you can generate from it?"

So, on many cases, I've helped folks steer away from the stock market, for example, just by asking that question. It starts them thinking, "Well yeah, I guess I don't really need to take that level of risk."

Or maybe you pass on that deal that has you saying, "Oh, this is great. Maybe I'm going to have to put all my eggs in that basket, but man, this going to be **THE** deal!" Because what happens if it goes south? **Do Not Lose Money is Rule Number One**. I never gave you rule number two, did I?

Rule Number Two is to Make the Best Rate of Return You Can Without Violating Rule Number One.

It's the Tortoise and the Hare theme. If you're just moving forward or never moving backwards, you will, in most cases, end up further down the road than everybody else. And boy is that true over the last 10 years.

Now, imagine me trying to make that presentation to a client at the end of 1999. The stock market has been up 20 percent a year, every year for the last five years. They were saying, "William, you just don't get it. Everything is different this time. We're in a new economy, this is a new technology, it's the internet, it's the…"

Look, some of the rules of life just don't change and then CRASH. Those same people were suddenly back at my door asking me, "How did you know that was going to happen?" It's kind of obvious, right? I mean, I couldn't pick the exact timing. I was telling folks to start backing off on stock market at the end of 1998. I was a year and half ahead of the curve. Same thing with real estate, I was about a year, or year and half, ahead of the curve on that one too. I would rather be out early than late, especially in real estate.

WHAT ABOUT STOCKS?

How Do They Fit Into Financial Planning?

There is an obvious and tremendous amount of risk with stocks because stocks can go out of business. We've seen companies that were huge, that have been around a hundred years, that no one thought would never go out of business, suddenly go out in a puff of smoke. That's why buying individual stocks increases your risk. However, when pooling similar assets, a fund, or an exchange traded fund, or whatever form that takes with one stock or many stocks, the amount of risk goes down significantly. You can apply the same thinking to your real estate or your trust deeds. You would never put all your money in one trust deed deal, no matter how good the deal looked, because there is always something that can happen. That's the diversification premise and principle that we're talking about.

First question that people ask me when we are talking about trust deeds is, "What's the guarantee?" Right? Ever heard that question? You actually have a tool that you can talk about in the form of the Buyout Agreement, which will back-stop their investment. So, it's backed by the property, or you can enforce the Buyout Agreement get your money back. Best thing about it is you made the interest along the way. That's a pretty, darn good deal. Then you don't feel so bad. "Oh, they made a good profit on that." Yeah, but I got my money out and went on to the next deal. It's all about the velocity of money.

I always liked the Will Roger's quote, "I'm more concerned on the return **OF** my principle, than the return **ON** my principle." Don't lose money! That is the number one, foundational rule and as soon as that rule is broken, that's when you see and hear of people having trouble.

If you're talking to someone about a trust deed and they say, "Oh, trust deeds. Man, I lost money in trust deeds."

You can say, "Oh, you didn't follow William Jordan's rule number one. Did you?"

"What's that? "

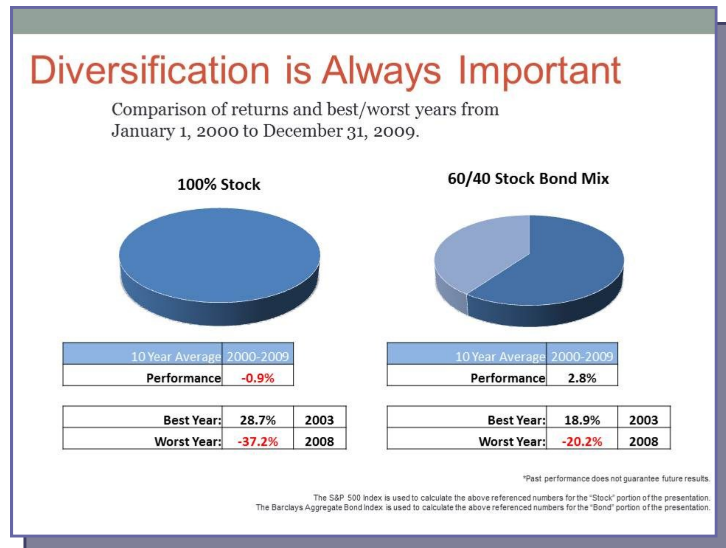
"Don't lose money!

"Well, duh!!!!!"

Yeah, but did you make an investment where there was a risk that you could lose money and did you really think about the risk? Or did you just assume that the real estate market was going to keep going up. It didn't matter if you lent 110 percent of the value of that property. You thought if you took it back, you would double your money because the property would have grown in value over the last three weeks. At one point, not too far in the past, people really thought that.

Does this sound familiar? In the stock market people thought, "Yeah it's up and it's never going to go down again. It's a new scenario, a new history, new economy. Everything is different"— then CRASH. Same in the real estate market... "Yes, it's never going to go down again. It's different, it's a new economy, it's a new real state market"—then CRASH. What's the next bubble going to be? I would actually argue that the next bubble is going to be bonds and that will be pretty soon, but that's not really the main focus of our conversation here today.

Take a look at the chart here on diversification. We're just talking about general indexes now. The stock market and a fixed income. I'll just use the bond market for a moment. Then I want to show you something that most financial advisers, and I would even say most registered investment advisors, don't get or don't understand and it should make a huge difference for you and your investment portfolio. On the left is the stock market. During 2000 to the end of 2009, the stock market lost money over a 10-year period of time.



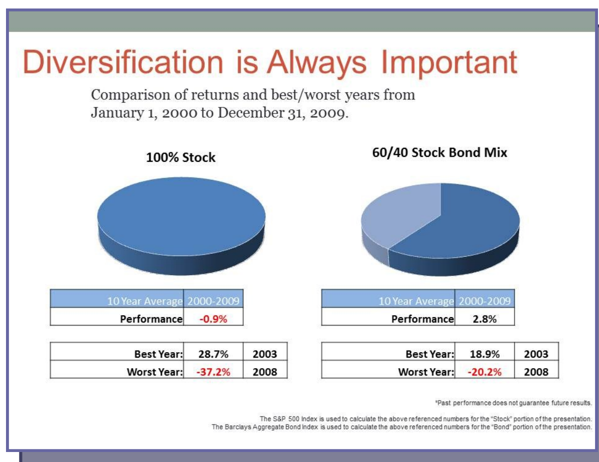
Lots of people say, "Oh, you invest in stocks for the long-run. Don't worry you're good?" Well, there are some exceptions to that. We just went through a 10-year period of time, actually about 12-year period of time, where the stock market has not made any money. So, there is no guarantee. Now, there has never been a 15-year period of time in history where the stock market did not make money. That creates some interesting implications for the next three years and it's going to be very soon that we see how that plays out.

I can give you a lot of reasons that I am not confident in the stock market and a lot of reasons that I am. The bottom line is, no one knows the short term fluctuations of the stock market or most other markets. The real estate market is one of the exceptions, because it's much more predictable. People live in real estate. You can study demographics, birth rates, and things of that nature and then you can pretty much accurately forecast the general trends in the real estate market. On the other hand, the stock market is virtually impossible to do so. I would actually just say it is impossible to do so.

So, there's 100 percent in stocks on the left hand side. It lost money over a 10-year period of time. Best year was 2003 when the stock market was up 28 percent. What did everybody do the next year? "Hey man, let's go into the stock market. This is great." Whenever something goes up, that's when people buy. Because you all know the rule, right? You buy high and sell low? That's the rule, right? No? But isn't that what everybody is doing?

What were they doing in 1999? Buying or selling stocks? Were they putting their money in the stock market or taking it out? Everybody was putting money into the stock market. You couldn't go buy a cup of coffee at Starbucks without hearing the people behind the counter saying, 'Oh man, did you flip that eBay trade?" When you hear that, it's time to get out! There is *nobody* left to buy.

People tend to put money in at the peak. Then when did they get out of the stock market? They got out at the end of 2002. "Three years in a row, man. That's never happened before. It's never going to change. We're in a new economy. It's all bad. It's all down hill from here." And then the market goes up, because everybody got out. These trends are not that hard to predict in the broad scope.



I'm very much in contrarian. Again, I loved the talk yesterday, because I'm watching Dave Stech, thinking that's just like me. There were a lot of things he had to say that were very similar to my belief system. If everybody is getting out, you should be getting in. If everybody is getting in, you should be getting out. It makes me nervous when I'm finally starting to hear people talk about the real estate market beginning to recover a little bit. I'm thinking, "I've been saying that too, but now that it is showing up in the media, am I wrong?" It kind of freaks me out, because I'm such a contrarian. But every now

and then a blind squirrel is going to find an acorn, so, they will get it right on an occasion.

So, again, here is your stock/bond mix. This is the simplest form of what a financial advisor might do. Let's create a portfolio. Divide it up with 60 percent in stocks and 40 percent in fixed income or bonds.

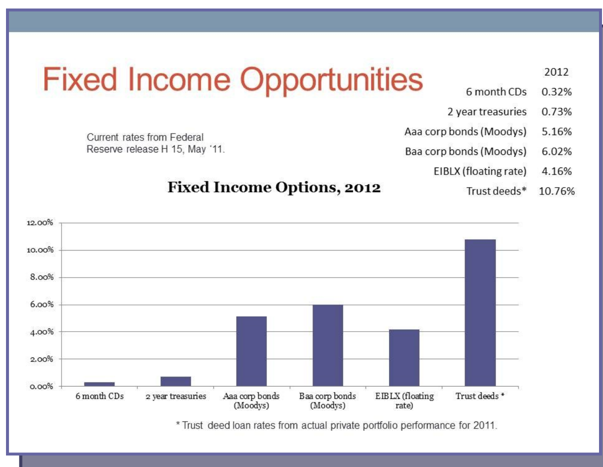
Look at the impact on the right hand side, both in the performance and in the best and worst year. The performance in the mixed portfolio over that 10-year period of time had almost a three percent average in annual increase. The best year was lower—it was a little under 20 percent, as opposed to the best year being almost 30 percent in the stock portfolio. The worst year was not as bad. All stocks were down 37 percent, but the worst year in that diversified portfolio, same year, was only down 20 percent. Still 20 percent is a pretty bad year, and I'm not trying to pretend it's not. But what did you do by diversification? You lowered your risk, but also shrank your bandwidth of returns.

WHY WE DIVERSIFY?

Lowering Your Amount of Risk

When you diversify, you're never going to have that explosive, "I made a 10-fold return on this one investment," because you've diversified too far. You might have an investment that does have that, but it's only a piece of the portfolio and part of the average return. So, you're giving up the potential of that ridiculous gain on the entire portfolio, but you're also eliminating a lot of the downside risk. Remember, Rule Number One is: Don't Lose Money. I believe that diversification is generally a pretty good idea.

Now, before I show you the next slide on the diversification chart, I want to talk about fixed income for just a second. In the financial advisory world, we deal with fixed income options, primarily bonds. If you talk to a financial advisor and you say, "I need



something safe to put my money into, that is going to generate some income." I'm not a betting man, but if I was, I would bet they recommend a bond or a bond fund. That's what financial advisors are trained to do. The problem is they are not trained to read the signs of the times and to evaluate how things are different today, than they were in the past. Like most people, many financial advisors make the same mistake and assume that the past is an accurate predictor of the future and that whatever has been happening is what is going to continue to happen.

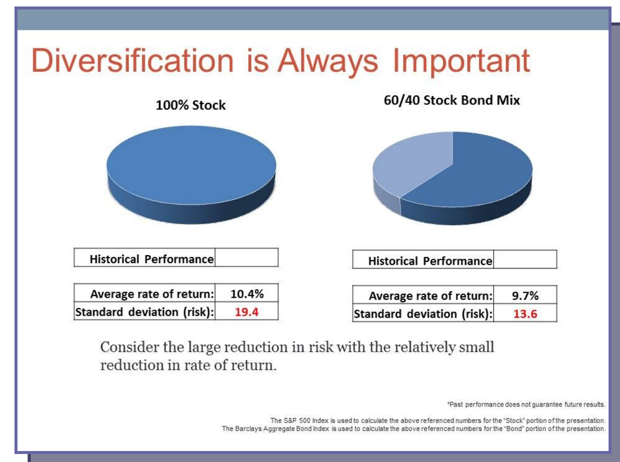
So fixed income options. You can even see the numbers on the left hand side. They are for CDs, treasuries, and corporate bonds. If we're being optimistic, corporate bonds are throwing off a decent amount of yield. The higher risk bonds, BAA corporate bonds—a little bit more yield, but not enough to justify the extra risk. We've got something else in there, floating rate funds, and then what's the one that's off the charts. Trust deeds, first trust deeds. That number on there is actually past performance for an actual first trust deed fund. We'll touch on funds in a few minutes here. If you look at this chart—now keep in mind, you're not financial advisors and you haven't been trained for this, nor are you properly educated to be a financial advisor—what fixed income investment are you going to pick?

The trust deeds, right? It's not that hard, is it? Financial advice is not rocket science. I appreciate clients who think, "William, you're one of the smartest people I know." But you don't have to be a genius to figure this stuff out. Just look at the picture!!!

We were talking about kids the other night and a lot of folks had two, three, or four-year -olds. Do you think they could figure it out? "Which one do you want, honey? What do you think? You want the big one or you want the little one?"

"I want the big one."

There you go. All you need to know about financial advice, you could have learned before kindergarten!



First trust deeds are a pretty, darn good place to have money from an income standpoint.

Now, let's apply this to our diversified portfolio. We looked at the 100 percent stock. We then looked at the stock/bond mix. The most sophisticated terminology I'm going to give you today is on this page. The average rate of return, we understand that, it's pretty straightforward. Standard deviation is one of those terms we like to throw out to make us sound smarter. It just means how much do things vary. How much up and down volatility is there going to be? How far from what we expect, could things go? Stocks are going to have a huge standard deviation, right? We're going to see it be way up and way down. We saw a 30 percent positive year and then a 38% negative year. That's a big standard deviation. How much standard deviation is in a money market account? None, you just get it. It doesn't really vary. (Okay, there's a tiny bit, but for sake of purposes, that gets a point across.)

So, standard deviation on the left hand side of the stock market portfolio had an average historical rate of return that was just over 10 percent. Now keep in mind, you don't have the luxury of waiting out history to get the historical returns. Do you?

I had a wonderful lady come into see me. She was in her mid-to-late 70s, I don't remember exactly. She brought in her portfolio and I always like to chat with folks before I take a look at their portfolio. We were talking about what does she want to do with her money? She just wanted to take some income, but hadn't because she was worried about the risk. She had been to a financial advisor and told him that she wanted

to be really safe. So, he put this portfolio together for her. However, it was not doing so good. A safe portfolio should still be doing fine, even in the bad market environment. So, I took a look. 100 percent of it was in the stock market!

"A negative number counts double is my rule of thumb. It's not a perfectly true statement, but it works reasonably well and it gets the point across. That's why my Rule Number One is: Don't Lose Money because when you lose money, you've got to make a double rate-of-return to get back to where you started and then you have to try to grow from there."

Now, I try really hard not to kick the competition, so to speak, they are not actually competition, they're just mutual fund sales people, but I don't want to make anybody look really bad. So, I just nicely said, "Now, you mentioned security, and that you are after safety and you just wanted some income without taking a lot of risk, but you do realize you're pretty much just invested in stocks?" She said, "Oh, well these are the stocks that don't have a lot of risk."

"Really? Wow. And how is that working for you?"

The point of that story was that the investment fund salesperson explained to her, that in the long run, it's statistically provable that being fully invested in the stock market is the best place to have your money. The CPAs have a saying that goes something like this, "If you give me enough time, I can beat the statistics into whatever you want them to say or I can beat them hard enough that they'll confess to whatever you want them to confess to."

And, honestly, her advisor was right! If you are immortal, the best place to put your money would be the stock market and then just forget about it. You've got all of history to ride out the ups and downs of the stock market. But **YOU** don't have all of history and **I** don't have all of history. We're dependent on what the market or an investment is

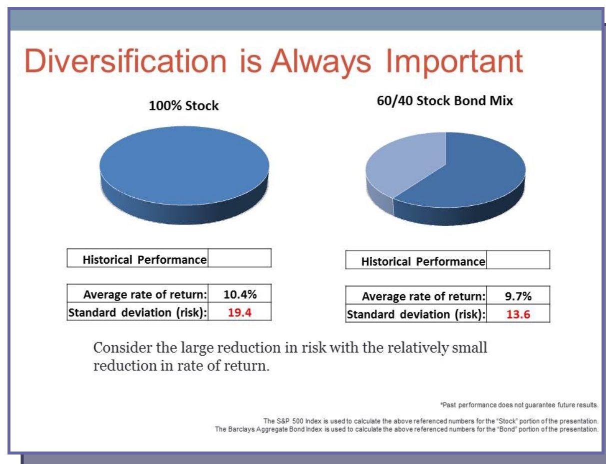
going to do in the near future and in a short period of time, historically. A short period of time would be maybe a five or a ten year period. That's the time that actually matters.

Heaven forbid you were taking money out of an investment... let's just say for really easy numbers, that at the beginning of 2008, you were taking 10 percent income off of your investment portfolio. Now, heaven forbid you would do that. The financial advisor would tell you that you could never do that. However, what you are making in trust deeds, you actually could generate that kind of income. But a financial advisor will usually tell you that you can take about 4 percent, maybe 4.5 percent of your investment portfolio a year in distribution. Let's do this with easy numbers—let's say you're taking 10 percent and the stock market fell about 40 percent. So, you took out 10 and the market fell by 40, how far down are you? The answer is 50 percent. Now, I'll give you a tricky, sophisticated, and incredibly hard to figure out math question. If you've lost 50 percent, what rate of return do you need, to double your money back to where you started? The answer is 100 percent.

Now, I'm not trying to trick you up—we just said 100 percent, right? Now you might be thinking, "Wait a minute, what do you mean, I only lost 40 percent? How is it that I've got to make 100 percent to get back to where I started?" That's because a loss counts double. A negative number counts double is my rule of thumb. It's not a perfectly true statement, but it works reasonably well and it gets the point across. That's why my **Rule Number One is: Don't Lose Money** because when you lose money, you've got to make a double rate-of-return to get back to where you started and then you have to try to grow from there. Don't lose money. If you're going to lose money just make sure it's diversified. I can lose this part of the portfolio, because I have that diversification to protect me.

So, in that scenario of the 70-year old woman, she can't be in the stock market and try to take a decent amount of income because she has to be able to ride out the 40 percent decline and wait for the market to double again, just to get back to where she started. In the five or ten years it took, maybe now she can start taking money, except she might be dead! You can't plan for when you're 150 years old. Too many times, our industry makes the mistake of trying to plan for forever, when folks just need to live along the

way. So, you have to be able to do both—plan for the immediate, as well as the long term.



Again, we're looking at the right side of the portfolio with the stock/bond mix at 60/40. Just introducing the bond, makes all the difference. This is just using bonds and look how it dropped the risk. Now it also dropped the rate of return just a little bit—from 10.4 down to 9.7 percent, but look at the effect on the standard deviation. Again, we're just calling that a measure of risk. It went from 19.4 down to 13.6 percent. That's a *significant* decline in the ups-and-downs risk that you're taking for a very small reduction in the rate of return. Now, *I* would take that trade-off.

Here's the question I always ask folks if they want to work with me: "What is more important to you, squeezing out the last couple percentage points of gain in a good market or protecting yourself from losing money in a bad market?" If the answer is to squeeze out the last percentage points of gain, then our conversation is basically done, because I'm not that guy. If it is to protect yourself from losing money, then great, let's keep talking. You've been told, "Get to the point of the deal as quickly as you can to figure out if it makes sense to pursue it or not." That's why I ask that question first.

I'm not saying I'm right and they're wrong. It's just a different approach and there is a time when that approach works better. But if that's their answer, I know I'm not the guy who is going to make them happy because I'm not that personality. That's not what I would bring to the table. I know what I bring to the table and what I don't. So, you have to answer that question for yourself.

If your answer is, like mine, to first protect from losing money and get as good as rate of return as you can, then you would be happy with some type of additional diversification. That would make sense.

Always Bring Your Decisions Back to Your Rules

I'm giving you my own rules today but you need to define your own rules. You can take mine and use them, free of charge, as part of the price of your admission here. But whatever you do, you have to have rules.

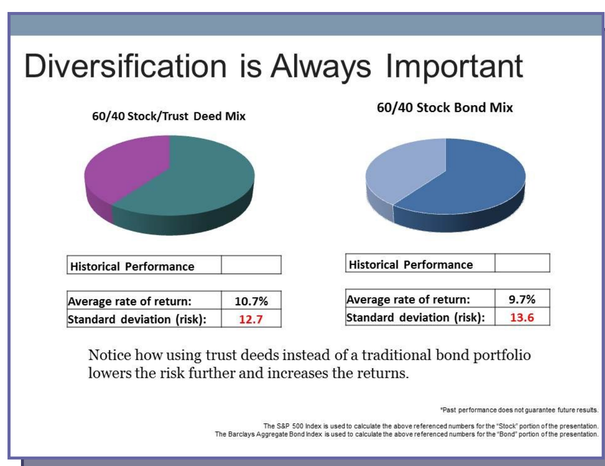
> **"Here's the question I always ask folks if they want to work with me: "What is more important to you, squeezing out the last couple percentage points of gain in a good market or protecting yourself from losing money in a bad market?"**

When is the last time you went to make an investment decision? You went to buy a piece of real estate, and said, "Okay now, let me evaluate this deal based on my rules?" Most of the time, if it looks pretty good and you think it could do really well, you're sold. But do you have a minimum performance number that you need from a trust deed or from a real estate investment, before you'll even consider that transaction? You better run a numbers. You must think, "Does it meet my minimum performance number or do I need to keep looking to put my money in a better place." Does it meet your level of risk criteria? How much money are you putting at risk? Maybe you say I will never put a risk more than 2 percent, or 10 percent, or 1 percent of my portfolio in any one deal at any one time. Okay, so if the deal is seven percent, and I said my limit was two, the deal is off the table.

You need to have your rules and then you evaluate the investment decisions based on your rules. That seems pretty straightforward? But is anybody really doing this? I mean, other than coming here and being taught what some of these rules are, is anybody really doing this? This is the stuff that get's people saying, "Well yeah, gee that makes sense." But nobody ever does it.

I loved the presentation that Regan gave us yesterday on goals, goal setting, and how to be successful. We all know the Harvard study from years ago, where they studied people who had written, definable, and measurable goals against people who did not. When they came back 20 or 30 years later, they found that the small subset of about 10 percent of the population who had written, definable, and measurable goals had more wealth accumulation than the other 90 percent of the school. There is real power behind written, definable, and measurable goals, so why aren't you having written, definable, and measurable goals and applying those to your investment decisions. Very straightforward to do. Overtime what you'll find is that you'll be able to start increasing your expectations concerning your demands and your goals. You might say, "Okay, I've got to make at least 10 percent on a deal for it to make sense." But there will come a point in time that you'll be able to say, "If I can't make 50 percent on a deal, it's not worth my time." It would be a nice place to be at, right? But ask some of the investors in this room, ask the people who have been doing this a long enough, what have they done?

Right now, you might say, "Hey, I'll look at anything." Then you'll get to a point where you will say, "Okay, I have to make at least $20,000 before I'm going to look at the deal." There will then come a point in time that you'll say, "If I can't make a million dollars on a deal, I just don't have the time to look at it." Wouldn't that be a nice place to be at? But if you don't start setting your goals, you will never get to that point in time.



Now, let's look at the stock/bond mix again. All I'm doing is getting rid of the stocks and giving you a comparison of the stock/bond mix on the right-hand side, which is still the same, to the stocks/trust deeds that's on the left-hand side. Look at the impact on the rate-of-return and look at the impact to the standard deviation. Now, these are not radical numbers. Keep in mind the fixed income component is only 40% of the

portfolio. So, it's not like the change in the interest that you're earning was going to move your entire portfolio up an actually four or five percentage points higher, but the average rate-of-return went up. That number, by the way, if you recall, is higher than the average historical rate of return for the stock market.

"Wait a minute William, are you telling me there's a fixed income investment that has a higher-than-expected average rate-of-return than the stock market? And a principle risk, a standard deviation, a level of volatility that's somewhere between 10 and 20 percent of the stock market?" That's exactly what I'm telling you. That's why I call it, ***The Golden Age of Trust Deed Investing***. Before we're done you can say that with me.

SELF EDUCATION IS

Self Preservation

This is the time to be investing in trust deeds, and by extension, real estate. I'm here to focus on trust deeds, but if you haven't got the sense already that I'm a fan of real estate investing, I'm definitely a fan of real estate investing. In fact, I bought my very first property when I was 21 years of age. I was smart enough to know that, "Hey, I should start buying real estate." I went to a seminar and I bought a package. Lee started this workshop by saying the seminar business has gotten a bad name. I thought, "It has?" I've learned more in seminars than anywhere else. Why would you not pay good money to go and learn from experts? Did you ever take a class in school where you had a bad teacher? Does that mean the educational system is bad? No, it doesn't mean the education system is bad, it just means the teacher wasn't great, right? Did you ever go to seminar, where you thought it wasn't that great? Yes, of course. Have you ever bought a package of information and then went through it and thought, "It wasn't as good as I thought?" Yes, but does it mean the seminar business is bad? No, way.

You know, I'll say this on tape. My daughter will be 15 in just a month. My wife and I have a little bit of disagreement on a possible educational course that she might consider

for her future enrichment. I'm an entrepreneur and my wife, when we first met, was pre-med. She didn't end up becoming a doctor for variety reasons, but she leans more toward the educational system and I tend to lean more entrepreneurial. My family's financial plan for college when I graduated from high school, was they handed me a 100 bucks and said, "Good luck, you're going to do great."

That was our plan. I applied to one college. I got in. I told them I got in and they said that's great. We never talked about college again, because nobody had any idea how to pay for it. However, I have been blessed and I have no complaints about my process. I took a year off from school, worked, earned some money, and lived on my own. I then spent two years at a community college, and earned an AA degree. You don't have to be some Ph.D., to be successful in life, in business, or to be successful as a financial advisor.

I have no complaints about that process. It wasn't until years later that I found out, because of our financial situation, I could have gone to almost any school. My SAT scores were in the top two percent of the nation. Of course, nobody told me that at the time. I could have gone to just about any school and paid less than I paid to live on my own and go to three years of community college. I could have probably figured that one out, and I wouldn't even need the pictures to help me with that decision. But regardless, I've been very blessed.

Nonetheless, that process has led me to the conclusion that college is not an automatic de facto or obligatory process that you should go through. It's an option. It should be considered. I would make the case—and my wife and I have had this conversation and once we get to an agreement, I'll present it to my daughter—that you can spend a lot less money going to seminars and getting an education from some of the most brilliant people in the world, and you would take less time and learn a lot more and be far more successful, than spending four years in college.

Who's chart was it yesterday? It was Regan Richmond's chart, right? I believe it said that by the end of college, 90 percent of people haven't learned anything applicable to real life. I took one business class in college and at the end of the semester, I thought,

"Really?" I didn't know much about business, I was only 19 years old, but I thought there would be more to it than that. I learned far more by losing money, that's a great life lesson, and by going to seminars.

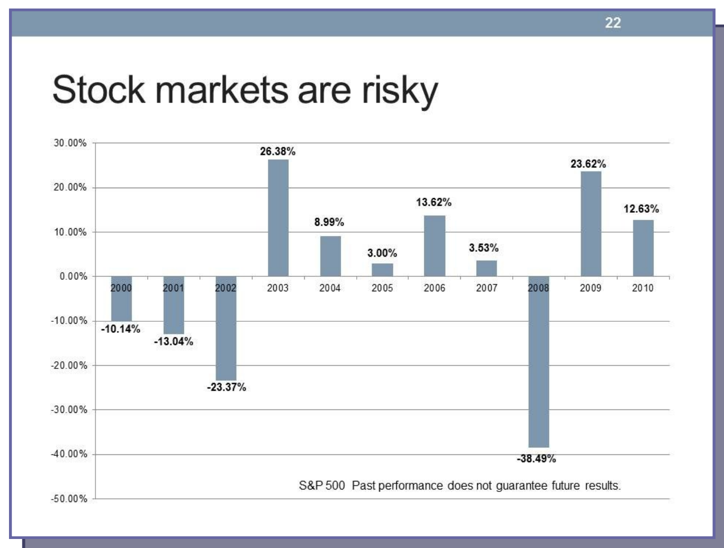
STOCKS VS. TRUST DEEDS

Not a Fair Fight

So, bottom line is: you put trust deeds into the mix, placed in the fixed income spot, and it has a meaningful, measurable impact on your rate of return, as well as a reduction of the level of risk that you're taking. Does that pass my "Don't Lose Money" test? Absolutely!

Don't lose money to me does not mean there is never a circumstance under which you will lose money. Okay? That is not what means. It means when evaluating every investment, ask yourself, "Is my chance of losing money significantly greater than the rate of return or the potential earnings that I'm pursuing here?" I do have some clients who still have some money in the stock market, but I'll show you the way that I'm handling that right now and it will kind of play on this theme that we're talking about.

We've looked at the bond side of the portfolio, so let's talk about stocks. Just so I have a quick idea, and no one is going to throw stones at you if you have investments outside of real estate, does anyone have investments in the stock market at this point of time? Just raise your hand if you have a 401(k) or an IRA. Okay, that's at least half a room.



We all know that the stock market is risky. You don't need me to tell you that. We've seen dramatic ups and downs in the market and that is just the last 11 years. It's all over the map. But what if you could avoid the bad years? What if you were invested in the stock market, but you did not take a loss in those down years, yet you still made the returns in the good years? That would be a pretty good deal, right? I mean, that would be like saying, what if you could buy a piece of real estate and if it goes down you don't lose any money and if it goes up you still make money. It sounds pretty good, right? It would be like saying, what if you could invest money in a trust deed and if it pays income you get the interest, and if it goes into default you don't lose any money? Oh wait, actually you can say that—that's the Buyout Agreement, but I get ahead of myself!

The Rule of 72

Does anyone know the rule of 72? It's a very simple rule, you just have to remember the number 72 and then the rule will work and make sense. It works in one of two ways. You basically take the number 72, you divide your rate of return into the number 72 or divide 72 by your rate of return and the answer is how long or how many years it will take your money to double? Okay, so for easy numbers, if your average rate of return was 7.2 percent, the answer would be 10 years.

Next time, you want to amaze and impress your friends while you're sitting around the table just throw out, "Well you know, if your average rate returns is 7 percent you'll double your money in 10 years." "Really? Wow, how did you do that?" "Oh I just did it in my head? Can't you do that? I mean everybody does that, right?"

And it works the flip-flop. If your rate return is 10 percent, you're going to double it how often? Every seven years, or every 7.2 years. So, if we're making 7.9 percent, what did we do? We doubled our money a little faster than 10 years. So you could come up with a pretty good guess of how much money it would have grown to, over that period of time, and at that rate of return.

So, let's just throw a number out there. If we started with a 100 thousand dollars, at the end of, in this in case, let's keep it simple, 10 years, and at 7.2 percent. So I'm rounding

everything down. That's now worth 200 hundred thousand. So, we have more than 200 thousand dollars at the end of 10 years, now if we were invested in the stock market over that period of time, we would actually have ended up with a little less than 100 thousand dollars. Now would that be significant, did that make a big, fundamental difference in how you approach the stock market. Yeah, you bet it did!

THE PASSIVE-AGGRESSIVE PORTFOLIO

The Option Strategy

Here is how you accomplish almost ***all*** of what I just talked about. We can get about 90 to 94 percent of the stock market gains with no concern of losing money over a two-year period of time. And here's how. Now, this is about the most advanced thing of I'm going talk about, so if I lose you a tiny bit on this, I would be happy to chat more and explain it more. I've also done a webinar on this topic for Secured Investment Corp, so you can actually ask Lee how to get access to that.

I'm going to simplify this, just for our purposes, because I'm talking about it in this kind of a context. But basically, I call this the "passive/aggressive portfolio." So, all we're talking about right now is your stock market money. So, imagine you have an IRA and it has 100 hundred thousand dollars and it's only invested in stocks. I'm not talking about your outside money, I'm not talking about your CDs, and I'm not talking about your real estate, I'm just talking about your stock market money for right now—that needs to be really clear. You take 90 percent of your stock market money and invest in, what I call "double-secured" first trust deeds. I call it that because it is secured by the real estate and secured by the Buyout Agreement—that's double security.

You invest in double-secured first trust deeds with 90 percent of money. Take the other 10 percent of your stock market money and you buy what are called options on the stock market. Now, you guys might actually get this, whereas a lot of folks don't because they don't understand options, but in real estate you can buy an option on a piece of property, right? You can option that property and what does it do? It gives you the right

to buy that property at a specific price, on or before a specific point in time. Does that make sense? If you get options, you get something that most financial advisors, mutual fund sales people, etcetera have a hard time with. If you get options, you will be ahead of a lot of financial people.

We take 10 percent of our money, we buy an option on the stock market, just on the S&P 500 index. We buy it out two years, and for those of you here who know enough about options, you have to pick the strike price—what's the fixed price we can buy in market. Just buy it at where the market is at today. So right now, stock market or S&P 500 is right around about 1,400. So, you buy the right to buy the S&P index at 1,400, two years out from today.

Now, is it worth anything to be able to buy the market at the price it's at today? No, there's no value in the fact that we can buy it at that price. The value is in the fact that we can still do that two years from now. Why do we do that? If the market goes up, we get to buy it at 1,400 and we participate in the gains that go up from there. Make sense? That means the purchased price on your option is what is called the "time premium." You're paying for the two years of time that you have the right to buy that index.

What's going to happen two years down the road? Well first, your trust deeds have earned interest, and you can get pretty darn specific on how much interest you're going to make on those trust deeds over that two-year period of time. For simplicity sake, because I am trying to make this easy, let's just assume that the trust deeds only made 10 percent at the end of the two years. They basically made back the money you spent on the options. That's how you'll calculate how much to spend on options—it's how much you will make back in a two-year period of time.

So, at the end of the two years, let's just assume that the trust deeds have earned enough income that we're back where we started, but we still own our options right? So what's the option worth today? Well there's really three possibilities. The stock market has gone down, it hasn't changed, or it has gone up. If the stock market has gone down, what's our option worth? Nothing. Because who wants to buy the stock market at 1,400 if it's down to 1,200? Nobody. No one will pay for that option. If the market hasn't

changed and is still at 1,400, what's our option worth? Nothing. I can buy it at 1,400 today, and I don't need your option to buy it. If the market has gone up to 1,500, what's the option worth? One hundred bucks. Again, I'm simplifying a little bit here, but it's pretty much this straightforward. There are just a few moving pieces, a few details, but it's really not that complicated. So the option now is worth a 100 bucks. If we started with our $100,000 and the stock market went from 1,400 to 1,500, the trust deed got us back to our $100,000 and we made, in this case, $10,000. We made our $10,000, because our rate-of-return was 10 percent. What was the rate-of-return on the stock market? Well, we had 1,400 and made another 100 points, which is about 8 percent. Okay, so stock market went up 8 percent. But we actually made 10 percent in that scenario.

When you run these numbers out about two years, the bottom-line effect is, at a conservative trust deed interest rate—I use seven for my modeling—our rate-of-return, if the market goes up, will be 94 percent of whatever the stock gain is over that two-year period of time.

Understand that the option pricing changes, so I can't give you that exact number. It will change day-to-day based on the pricing of the option, volatility, and all the other stuff that goes into the pricing. Let's just say 90 percent of the gains. So let me ask a simple question to the stock market investors, "If you could get 90 percent of the gains in the stock market over the next two years, assuming the market is up, and if the market is down you would not lose a single dollar, would you do that? Would you make that trade? Would you make that exchange?" Most of my clients would say yes. Now if you're this guy over here, who would say, "I want to maximize my rate of return and I'm not as concerned about the risk." You are probably going to think, "Why would I give up 10 percent of the gain?" It's not 10 percent of the rate-of-return. It's 10 percent of the gain. So that means if the market is up 10 percent, we're up 9 percent. Most people will make that trade.

TRUST DEEDS

Why Your Money Manager Is Not Telling You About It

Now, half of you raised your hand and said you have money in the stock market, right? Please raise your hand on this one—I just want to have an idea—raise your hand if you have money in the stock market and you work with a financial advisor, in any capacity. Okay, so just a few of you. Now raise your hand if your financial adviser has told you any of this. Where are the hands?

Ok now, we've already defined that a two-year-old can do a lot of financial planning, right? Just look at the chart. Here's a picture, you can figure it out right? Not that hard. You can go online and buy the options. Secured Investment Corp provides the trust deeds. Is this that difficult? I believe I'm a reasonably a smart guy, but did it take a genius to figure this out? No. Why didn't they tell you this? Because they don't know how to make money on it and they just flat out don't understand it. Here's another dirty secret, if you will, about the financial advisory business. Think about it from this perspective. As a registered investment advisor, you charge, in general, a one percent fee on the assets you manage. Whether it's stocks, bonds, mutual funds, etcetera, you get paid the same fee. That's good because it avoids the conflicts of interest. Now let's think about it in different direction. You're paid the same one percent every year, whether you change the investments or not. You don't want to change the investments, just for the sake of changing them because that's a risk and at the same time, you're paid the same one percent no matter what you do. So you're paid the same one percent whether you leave the money in the stock market or you do a lot of work. Now it's not that hard to explain, but do think there's a little bit of work in putting all of this together for my clients. Yes, there's a little bit more in this, a little time, a little cost, and a little bit of risk. So, why are other firms not doing this? They're lazy. It doesn't change their compensation. "Why am I going to do all of that when it doesn't pay me more?" I hate it that there are people out there that have this approach, this attitude, and this mindset, but let's be real and acknowledge that there are plenty of people out there that have that approach and mind set, right?

If you're running a RIA business and you've been doing the same thing for 10 or 15 years then you've built up a great clientele and income. Why would you create more work for yourself? At this point, you don't need to go the extra mile. You can be on the golf course four days a week, and check in at the office every now and then. You can talk to clients on your cell phone or go out to lunch with them for face time. You simply make subtle adjustments here and there, and that's it. Many RIAs get by just doing the bare minimum.

In fact, the thing now in the RIA business is managing the managers. A lot of RIAs don't even manage the money anymore. They just pick a manager and then put the money with them. Then they tell the client, I don't know how they can say this with straight face, "Bill, I want you to give me your money, because I'm going to pick the best managers for you. Then I'm going to manage those managers for you Bill. And I'm only going to charge you 1 percent, every year for the rest of your life. Just sign right here."

What!? Isn't the manager supposed to manage the money? So, I'm supposed to manage the manager who's managing the money that you're paying *me* to manage? I think, I'm a pretty smart guy, but that is kind of confusing to me.

I know I'm kicking a lot of the people in our industry under the bus, but frankly, they need to get their act together. We have a very important industry. We provide a lot of benefit to our clients. I can't tell you how much money I have saved people just by talking them out of doing stupid things with their money. For instance, I had a clent say to me, "Oh, William I found this great thing, they're called apps. You know what app is? So, there's an app and they put it on your phone and it locates restaurants…" I get these types of calls all the time, "William would you take a look at this deal or this deal?" Now, I always take a look at the deals, because that's my job, but I almost never sign off on them.

So, part of our job is to deliver value by stopping bad decisions, while managing the money in such investments as trust deeds. I believe we, our firm, is raising the bar on the standard of expectations for what the industry needs to be delivering. Why would

somebody not offer this to their clients? Because it will take too much time and cost them too much money. They don't want to deal with the hassle and learn how to develop the expertise in this particular investment, even though that's their job.

I encourage you to give a copy of this presentation to your money manager or financial advisor and ask them to watch it. However, I will warn you of the first thing they are most likely to say...

"Well, you know, it kind of sounds too good to be true. If something is too good to be true, it's definitely too good to be true. So really, you should probably not even consider looking into that."

Let me translate that for you.

"I don't want to do research to look into this because this sounds like a pain in the neck. I'm really concerned you're going to give this guy your money and that's just not a good idea."

That's basically what they're saying.

I had a wonderful, sweet client that wanted to transfer her accounts over to our management. Now she wasn't a big client with a huge amount assets, but I feel everybody is important regardless of how much money they have to manage. We do not have an internal measurement or evaluation in our office where we check to see how much money they have first. I'll meet with anybody that comes in the door at least once. Because I came from nothing, it's my belief system that everyone deserves time and a fair shake when it comes to their financial well-being. Either myself, or Kevin, or someone in our office will meet with any prospective client that comes through our door. That's just our belief system.

So, while we're working on bringing this lady's account over, her former financial advisor calls to scare the daylights out of her in order to keep her from moving her

account. Afterward, this client called me and told me how mean the advisor had been to her. The advisor had told her that she didn't appreciate the hard work or their relationship and that she was worried that I was going to rip her off. I was shocked over this advisor's skewed approach to the business. She was trying to keep her client by scaring her into staying with her, and all the while the advisor was not willing to do the extra work to keep the client on merit alone. Come on!

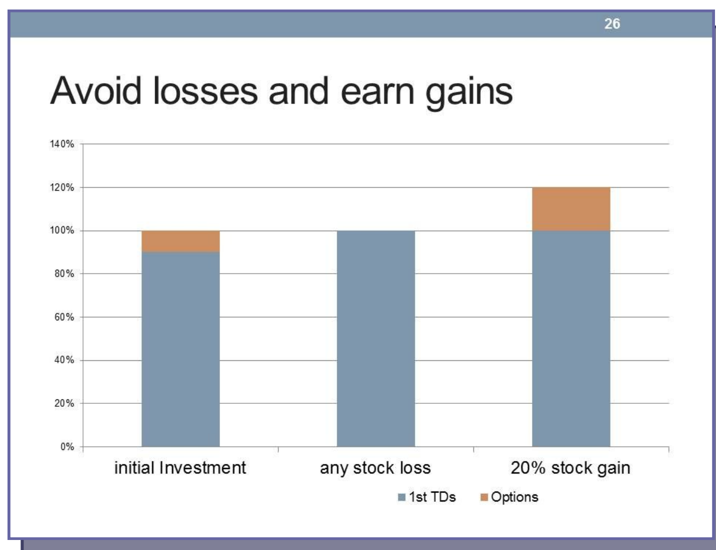
The whole point of this is not to throw the Wall Street or the financial planning industry under the bus. But, if I'm not going to tell you what it's like behind the scenes of this business and industry, nobody else is going to either. You need to realize this when you sit down with your financial planner or when you're talking to someone who has a financial planner. The financial planner generally has one goal: Get that person's money under their management and not let them get it back. That's the bank, Wall Street, and the financial industry's main goal: "Give us your money and then go away." I believe Lee was talking about this earlier, regarding Donald Trump's philosophy: "Service them as fast as you can so we're done" or said a little bit differently, "Give us your money and stop calling us."

Now, a quick caveat, there are a lot of exceptional, high-quality firms in our industry where it's probably more of a lack of education, rather than simply a sin of omission. They just don't know about some of the alternative options that are available. So one of the things *you* can do is to help them by taking these options to these folks and using this transcription or video on the subject to inform them. Because to some extent, when you put those facts in front of them, they're going to have to accept that those facts make sense.

So, to reiterate, my job, in *this* business, is to continually think of how else can we do better as an RIA firm? I need to always be looking for what is different and what can be learned and researched for my clients. Perhaps that's because of my seminar background. I learned most of the stuff I put into practice by self-education through seminars and reading. There is always something new to learn, so I'm always looking. Some may think that if you have a college degree, a fancy master's degree, or Ph.D. you already know it all… Well, surprise you don't! I got just an Associates of Arts degree,

yet I do much more business than the next guy. I continually seek instruction and learn new ways to help my clients earn better returns on their investments.

You can do these things too. There is nothing I have talked about here that you can't walk out and do yourself. This is not a "you need William Jordan to do any of this" type of thing. You can do everything I've just talked about by yourself and on your own. Yes, we help people do this kind of stuff and make it a lot easier, but you can do this yourself.



Here's the bottom line. On the left-hand side, it shows a picture of the initial investment, 90 percent of the money went to the trust deeds and 10 percent (in the red) went into the stock market. The middle column represents the end of the two years. However, you don't have to go out two years, you could go out six months, one year, or even five years if you want to. You can do whatever you want with the timing. Just understand that at the end of the term, if the market was down or flat, the red is now gone because the options expired and are worthless, but the trust deeds replaced the money you spent on the option, so you're not out any of that money. If the stock market went up, you got a 20 percent gain, and we basically got almost all the gains in the stock market, with virtually none of the downside risk.

On the next page you'll see an actual 13-month plan. You'll see my 94 percent number on the right-hand side. This is why I've been throwing that percentage number out. When I did the analysis for the first time, I came up with a 94 percent participation rate or what percentage of the gains you would be able to participate in.

A 25-month plan is even better.

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Actual 13 month plan

		0% gain	10% gain	20% gain
first trust deeds	90.2%	100.0%	100.0%	100.0%
options on S&P	9.8%	0.0%	9.9%	18.9%
	100.0%	100.0%	109.9%	118.9%
		Participation Rate	99.0%	94.5%

S&P 500 Past performance does not guarantee future results.

Now this is not a brand new idea. I'm not the first person to come the up with this. There is nothing new under the sun as we've all heard before. Insurance companies, brokerage firms, and banks have been doing things like this for years. In fact, I recently sat down with a gentleman who had a 30 million dollar portfolio with Goldman Sachs and was unhappy with their performance. Now when you think Goldman Sachs and 30 million dollars you're probably thinking, it's Goldman Sachs, they must be doing a great job."

I looked at his portfolio and thought, "This stinks! We really have got to get your account over here and start earning better returns!" I showed him the success I was having with trust deeds. The funny thing was, he had previously invested in trust deeds with Merrill Lynch in the mid-2000s, and couldn't remember why they had stopped doing it since it had done as well then as it is now. I don't know why they stopped doing it either. I just know that this is not a revolutionary concept or idea. I was actually taught this when I started in the industry back in 1997 and 1998. I was taught that you take most of the money and buy what was called a "zero-coupon bond" so that it will mature for whatever the term is, and then you take the excess and you invest it in the stock market. So, it's just the same thing with slightly different variation to it.

QUESTIONS

Alright, so before we transition, let's cover some common questions.

Question: In your portfolio with the 90 percent in trust deeds and the 10 percent in stock options, do you let your stock options run for the entire two-year period, since the S & P can be cyclical, or do you hit a strike price? Is there a price where you say, "Okay, I want to make an X amount of percentage gain and then just sell it"? Meaning that you don't have to ride it out for the whole 24 months."

Answer: There are actually two things in this question that we can take advantage of. First of all, it is not at the end of two years that you have to make a decision. If you think, "Oh man, the market was up three months ago and now it just crashed and I get nothing!" Don't worry, you can sell those options at any point in time. So, If you're looking at the market and it has just run up and you're thinking, "Boy, that doesn't make any sense. I'd like to take my money off the table." You can sell the options. They are tradable every single day. So it trades on the stock market just like a normal stock would. So yes, you can lock in your gains and get out.

I'll go one step further. Remember, I said you have to have rules and always apply them to your investment decisions. Here's one of *my* rules. If we have a 10 percent gain in the value of our portfolio because of an increase in the options, we sell, lock in that gain, and then redo the exact same plan. So, if the stock market runs up 10 percent, we sell, lock in the options, take the same portfolio divided again—I'm using 90/10 as simple terms, but usually we end up being about 15 1/2 percent in options. Now, I'm back to one lump sum. I can take some of that extra profit and put it on the trust deed side and then I repeat the 90/10 formula but at a higher amount of money. What I've done is I just locked in a stock market gain. If the stock market drops from here, even if at the end of two years it's down, if it got up to 10 percent anytime during that year, I locked that in. I'm not going to give that back now. So, you absolutely stair-step up, while locking in the gains along the way. Otherwise the stock market game can be very frustrating.

Case in point: remember last summer when the stock market was up 10 percent for the year and things were looking great? Then all of the sudden, two things happened. First, the government had a debate over whether or not they would increase the debt ceiling, which was stupid because they knew they were going to do it or else the government and the country would stop. It's kind of hard to put the entire country on hiatus especially if you're in the United States of America—you don't get to say timeout. So it was a foregone conclusion. *Everyone* in the entire world knew they would increase the

debt ceiling. However, the looming questions were, what was the exact timing and how far would some of the political machinations go. So, needless to say it was a bit concerning and the market reacted by dropping 10 percent. It made no sense, whatsoever! It had nothing to do with anything fundamental to why the value of stock should change, but the market dropped 10 percent.

Secondly, the S&P downgraded the United States of America's "Triple A" credit rating to Double A or Double A+. The market dropped another 10 percent, and now it was down 20 percent in just a four-week period of time.

I did a conference call with my clients because a lot of people were freaking out. I just explained to them that nothing has fundamentally changed and that there was really no difference. Basically, these two things had no relevance in the world. What did the next six, eight, ten or twelve months prove? Those two things had no real impact or relevance. People didn't stop buying government debt. The country didn't stop functioning. The debt ceiling was increased and nothing fundamentally changed except that the S&P said that there was a greater chance of the United States government defaulting on debt. We could do whole workshop on that. But the point is, the stock market dropped 20 percent and this would be the point in time that you can put all of this, what I've been teaching you about, into motion.

Now, I'll throw myself under the bus. I wasn't doing this in the middle of last year and I'm kicking myself for it! That was the "AHA moment" when I said, "I need a better solution. I can't allow a loss on a stock market portion, even if it is a small portion on someone else's portfolio." Every dollar lost bugs me. Even if it eventually comes back, which it has, it still bugs me.

"How do we prevent that from happening again?" And that's when I got to thinking and collaborating with Secured Investment Corp. Just like Lee says, "If you put some good people together, and begin talking and thinking, synergy and good things begin to happen."

So, I said, "How do we prevent that from happening again?" That's when I got to thinking and collaborating with Secured Investment Corp. It is just like Lee said, "If you put some exceptionally smart and creative people together, synergy and good things will begin to happen." You take the crux of a problem and begin to hack away at it. When major innovations have happened in the world and when new ideas have cropped up, it's usually during a crisis period. It could be a war, it might be a financial disaster, or it could be any number of things.

That was a crisis period for me. The market dropped 20 percent in a month and I needed a better solution.

Now, there are other accounts that work like this but they cap the gains at such a low rate, that they don't make much sense. We could go to the bank and I could get you a market-linked CD but they're only going to give you about 25 percent of whatever the gain in the market is. Well, that stinks! So, if the market has the greatest year in history and is up 40 percent and I'm only going to make 10 percent? Okay, if the market does what I hope, it averages 10 percent, I'm going to make only two and half percent? It doesn't make any sense and I can't, in good conscience, charge a fee on that. I needed a better solution. I needed to get more of the gain in the market, while still protecting the investment. This caused us to get a little more innovative and that's where this whole concept came from.

Had I had this in place before the whole debate, my company would not have experienced that 20 percent decline. Now again, the market has come back, but the stock market is still something you have to consider in a longer period of time. This strategy allows you get a little bit more in the short term. If you're concerned or nervous about the stock market, like many people, we've now got a solution to preventing you from losing money when it drops.

If you just took this simple strategy that I gave you, went out a year or two, taking whatever interest you're going to make on your trust deeds, which was 90 percent of your portfolio, and bought options with the other 10 percent, everything I just said will work.

Can we do it even better? Yes! That's part of how our firm tries to deliver value. Okay, how do we do it even better? People actually want us to micro-manage it for them.

I can't even get most people to look at their statement on a quarterly basis. Think about it. Do you have a 401k? Tell me the last time you looked at your monthly statement? For many people, they stopped looking at it altogether by the end of 2008—it was just too depressing. Only when the stock market started picking up again, did people suddenly want to see their statement. They wanted to see exactly how they were beginning to benefit from the new gains.

For the most part, people don't want to pay a lot of attention to it. They are busy doing other things. If you're in the real estate business and you're trying to make money in real estate, you're not necessarily paying attention to your stock market investments, right? We make it really simple and easy by micro-managing it for our clients.

TWO IMPORTANT ELEMENTS

Of Diversification

The last segment I want to talk about are the two primary elements of diversification. How do you create diversification in your portfolio when you're considering trust deeds? There are two options that I'm going to talk about briefly here and they center around my rules of investing?

What was Rule Number One? Don't Lose Money.

So when I looked at first trust deeds and I said, "Wow, this is "The Golden Age of Trust Deed Investing," right? Did I say to my clients, "Man, this thing is guaranteed! This is a slam-dunk. There is no way you can lose money on this?" Of course not!

Are there risks? Of course, there are risks. Are there going to be trust deeds where there is money lost? Yes. I'll give you one scenario right now. On one of the trust deeds that we recently purchased, a property in the Chicago area, they found that Chinese drywall was used in the construction of the property. I was not aware of this upon purchasing it, nor was I aware that the government requires that the property owner tears out 100 percent of the drywall, in the entire property, and replace it, as well as all of the air-conditioning and ventilation. Anything and everything that was affected by the drywall had to be replaced, including the wiring.

Are we going to make money on that foreclosure? I don't think so. I think the question for us is, will it be better for us to pay somebody to bulldoze the property or pay somebody to take it as is. It will be kind of like the Lee scenario, "How do I get out of this thing? Can I give you $5,000 to take this property?" The fact is, we're just going to lose money on that trust deed. And I maybe slightly exaggerating, but the point is, you will not make money on every trust deed and it's not a guaranteed positive rate of return. There are some risks.

Now because my Rule Number One is: Don't Lose Money, I've devised a way to take 100 trust deeds to a 100 of my clients, and I put everyone's investments into those selected trust deeds. If I didn't do this, and everyone invested in their own trust deed, there is that possibility that 99 do great, but one person loses all of his/her money on a bad deal. Well, that is an unacceptable proposition to me. So, the solution is to diversify, right? Or put them together into a pool. So, my first action was to create a fund for my clients.

"If someone is not an accredited investor, and cannot participate in the fund, they decrease their risk by investing in the Buy-Out Agreement!"

Now the problem or challenge with creating funds is that the government has restrictions on who can invest in them. I cannot let my clients invest in our fund unless they have at least a million dollars in net worth, not counting their home equity. Now we have lot of clients

that would exceed that number, but we also have a lot of clients that don't. So, while we're managing the fund, things are going great and we are making a good income for our clients, and I'm thinking: "Oh, this is so great! I need to be able to offer something like this to ALL my clients, even the non-accredited—or below that million dollar net worth threshold."

It's somewhat ironic the way our government looks at things, right. If you have a net worth of $999,000 you are an idiot. If you have a net worth of 1 million dollars, you are a genius and you don't need any advice on your investments. You know what you are doing. Don't ask me how that works. Now let's just say your money was in the stock market: I am a genius, I am a idiot, I am a genius, I am a idiot. Market keeps bouncing up and down and it's like... stop it already, I am getting schizophrenic here!

So some of our clients can invest in the funds but others can't. And I'm thinking, "Am I just stuck offering them bonds or CDS?" I've got this phenomenal, Golden Age of Trust Deeds over here, but I'm still hesitant to put one client, with a significant amount of money, into the trust deed. That's why I created the ***Buyout Agreement***.

Crisis + Problem + Stress = Solution

That's how great solutions come about. You usually don't come up with your best ideas when you're having a great day, the sun is shining, and you're driving with the top down. You come up with great ideas when there is a crisis and something *has* to happen. Now, is the ***Buyout Agreement*** some brilliant idea? Are people thinking, "Wow who would have ever thought of the idea of having an option contract. Oh my goodness. William's a genius!" No, it's more of a supply for a very genuine demand. I know I personally don't want the individual risk of one trust deed. And if I don't, I'm pretty positive that my clients don't either. That's basically where the buyout agreement came from.

THE POOLED FUND STRATEGY

Diversification for the Accredited Investor

Let's talk through these options: Individual Notes and Pooled Fund. With individual notes, you are going to have a borrower default on occasion and you've got a possible loss of principle. Normally in a fixed income, you are worried about defaults, right? Default in a bond means you lose your money and they don't pay you back. Now part of the reason this is called *The Golden Age of Trust Deeds*, is because when there is a default in a trust deed, you get the asset. And really, that's pretty phenomenal. You get to own the asset. Now the questions are, "What is the asset worth? What can you do with it? What are your options? How much hassle is it going to be? What's the process of foreclosure? What if they try to file bankruptcy to delay it? What do I do if they try to re-file." Etcetera, etcetera, etcetera. Or what happens if we are ready to foreclose on a property, and the day before the foreclosure option, title just found there is a second on the property that they didn't know existed. Foreclosure sales get stalled. So, it can be pain in the neck. We're the easy generation of the remote control button. We don't want to deal with that. We don't actually want to have to work at our investments. The **Buyout Agreement** can take care of that possible risk of principle loss.

How trust deeds fit inside an investment portfolio.

Individual Notes	Pooled Fund
• Borrower Defaults • Possible loss of Principal • Fraud involved with loss of principal • Returns from 8% to 14%	• Reduced risk from default • Substantial diversification • Returns averaged from 10% to 11%.

Past performance does not guarantee future results.

There is also hypothetical fraud involved with the loss of principle. Here's a scenario I ran into. It wasn't with me, or any of my clients, or with Secured Investment Corp. It actually took place with a local trust deed company in Southern California. I was talking with a client about investing in trust deeds. And he said, "Well, you know, I lost some

money in trust deeds." The company he was working with was originating the trust deeds, they were bringing in the lenders, and they were doing it all "in-house." By the way, the term "in-house" is a warning sign. Once they sold the trust deed, they sold it to five different people. They sent the recording documents in and they recorded it for one person, they got the recorded documents back, and then they photo-shopped the name and they sent everybody a recorded deed, showing that they were the lien holder

So, how do you make sure that this doesn't happen to you? It's pretty easy. First, of all you tell them, whenever you are beginning a trust deed, that after the deed is recorded, you're going to get your own copy from the county recorder's office.

When I first met Secured Investment Corp, I didn't know them from anybody. I didn't have this great relationship with them that I have now. So what did I say? I told them, "I just want you guys to know that every time a trust deed is issued, I am going to go get my own online copy two weeks or so after its filed. So I'll always have my own copy." Translation: Don't do what that person did.

Now I don't have that concern anymore because I know these guys. But the first time you do business with somebody and you are worried, make sure you do your due diligence and cross your T's and dot your I's. I expect the same kind of skepticism when somebody comes to see me for the first time. They are wondering "How do I know you're not some Bernie Madoff?"

It's a good thing that I'm ready for that question and it's a good thing I don't take offense to stuff like that. The truth is, I'd ask that question too if I was going to talk to somebody about managing my money. "How do I know you're not going to take all my money and run?" I guess some people get offended by that. But I live in the post-Bernie Madoff world, so I am going to have to handle that question, and I get it all the time.

How do you deal with it on the trust deed side? It's pretty straight forward. You just make sure that you don't have one entity that does everything. That's why one of the first things I liked about Secured Investment Corp—they use an outside closing service to handle all of our transactions. You don't ever send your check to Secured Investment

Corp. Now, I would trust for you to send your check to Secured Investment Corp, but their philosophy is, "We don't even want to have the questions raised." So they use an independent closing service that handles all of that. That eliminates any skepticism or possibility of fraud because multiple companies are involved, which makes it pretty darn difficult for fraud to happen.

Then there is fraud on the borrower's side. Sometimes borrowers are going to try to take advantage of the system by getting access to money when they know there is a problem. CB, at Secured Investment Corp, was relating a story about this very thing last night. Someone had sent over all the necessary documentation and CB was reviewing it and something just didn't add up. Although the Bank of America statement on assets looked like there was enough money in the account, CB noticed that it hadn't earned interest in the last three months. That's pretty strange. But this just shows you that somebody at Secured Investment Corp is actually paying attention to every, last detail.

Initially most loan packages will look pretty good. They are packaged up with a bunch of pages to read through and you have to really know your stuff to know what fraud even looks like. However, CB goes through each one with a fine-toothed comb. They are trying to screen out that level of risk. But is it hypothetically possible that somebody could get something through? Yes, it's hypothetically possible. We live in the post Bernie Madoff, Lehman Brothers, Arthur Anderson, Enron world. I stopped saying things couldn't happen, when all *that* stuff happened.

So, I didn't want to hand off the risk of the individual note to that one individual client, even though the returns on trust deeds are so much better. Sure, it can come down as low as 8 percent or so, but I've seen a lot of trust deeds coming through around 10, 11, or 12 percent, and when you throw in a point or two, 13 sometimes 14 percent. So you have a better potential rate of return if you're willing to take on that risk, but what's my first rule? Don't lose money, right? So, I don't want that individual risk.

What about the pool fund? The risk from default, the risk from fraud, any of those risks are dramatically reduced. For that risk to really affect the fund, in a meaningful way, it would have to be a systemic risk reaching throughout the entire system. If half of the

trust deeds that came through defaulted, and somehow the appraisers were all wrong by 50 percent—then yes, the principle could be affected. However, you would have to have some pretty extreme scenarios to have a hundred notes become a risk to your principle versus just one note. With one note, you could lose your principle. With 100 notes, it's a lot harder. Tell me, if we own a hundred notes in one pool, does that pool really have a true risk of losing principle? What do you think?

I can't ever say "guaranteed" or "never" but you have to start asking what is the sequence of events that could lead to a principle hit to an entire fund. It would have be something so systematic, where the entire country's real estate market falls, because it's not going to be just one city, the fund is comprised with notes from all over the country. So if the entire country's real estate fell by 60 percent in value, you might have a problem then, right? I suppose that could happen? I can't guarantee that it can't happen, but I'm pretty sure that it's not going to happen. In fact, I bet real estate goes up from here.

Could half of the notes somehow be fraudulent? I mean, I guess that could happen. As I said before, anything is possible, however, as long as we've been doing this, we haven't even dealt with one fraudulent note yet. So, I'm not really concerned about that.

Someone in the audience mentioned hurricanes or natural disasters. Obviously, those can't be helped. The only way to offshoot this is by not having all my properties in one place. That's why we have our notes in 24 different states or so. Could a hurricane hurt the fund a little bit? Sure. Could it hit the principle? Hypothetically, yes, but it would have to be an over concentration, in one area, with an incredible sequence of unlikely events stacking up.

Again, what is my first rule: Don't lose money. I'm not going to put any significant percentage of the funding of our notes in one place. So, if a hurricane came through Florida and wiped out half the state and half of our notes were in Florida? Well, that would be a dumb move on our part, wouldn't it. That's why I follow Rule Number One so closely, I don't want to lose money.

Look, I've stopped saying "something can't happen." Rather, I just say, "Well what would have to happen for us to get to that point?" The shoulda, coulda, wouldas will kill you and at some point you have to say, "Okay, I give up that's just ridiculous" or "No, I'm not really concerned about that."

I had a gentleman call me after reading a piece that I had written in a local magazine and wanted to talk to me about the 7 percent yielding investment I referred to in the article. I mention 7 percent a lot because I really like to under-promise and over-deliver. And there's also a note we offer out of our fund that's at 7 percent. We actually have a number of things we could do that are at 7 percent or better, which are all related to trust deeds.

So this gentleman says "I like that 7 percent. I need something really safe and I don't want anything that has to do with real estate."

I said, "Okay, so let me ask you a few questions. If we could lend money on 100 different properties and you were just a small fraction of each of those, and each one of those was about half the value of the property at the appraised value, and they are all located in different states of the country, and they were all, for say, twelve months on average or shorter period of time, is there any significant amount of risk that you're hearing in that? No? Okay. So I have a note that based on that."

"Is it related to real estate?"

"Yes."

"Well, I don't want anything related to real estate."

We run into that sort of thing a lot of times in our business. We do annuities with clients on occasion and I run into the same problem. Clients call and say, "I don't want any kind of annuity."

My usual response is, "Okay, no problem. By the way, I do have an account that would guarantee your principle. It would pay you a nice interest rate for the rest of your life, guaranteed, and you can never run out of money. There are no risks, the stock market can't hurt it. It can't ever go down, and it won't ever stop. And that's all contractually guaranteed and insured. Would you like something like that?"

"I'd love that!"

"That's an annuity!"

"Oh, I don't want an annuity!"

Go to your rules and get the jargon out of your head. Sometimes, we get all hung up on this terminology and forget that we're here to make money and not lose money… that's it!

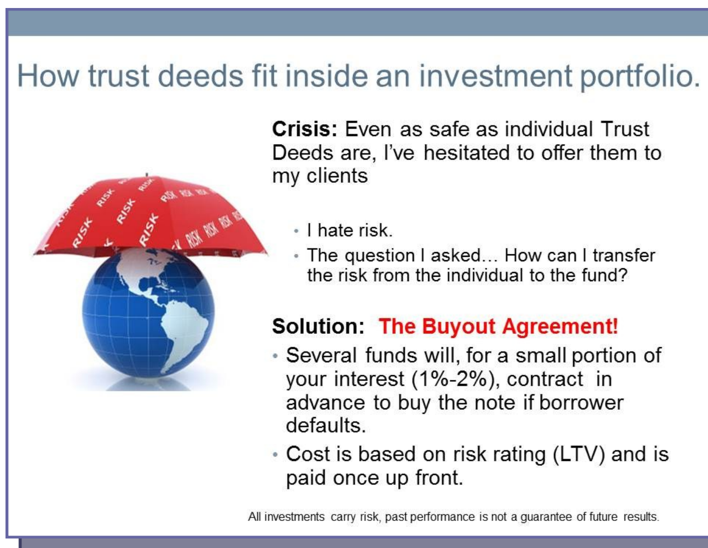
Overall you've always got to ask and answer the questions, "Where do I see the risk? How much risk is there?" I personally feel like that whole pool approach dramatically reduces the level of risk in the portfolio.

THE BUY-OUT AGREEMENT

The Non-Accredited Investor's Safety Net

If someone's not accredited, that is where the Buy-Out agreement comes into play, and we'll just touch briefly on that here.

Even as safe as individual trust deeds are, I initially hesitated in offering them to my client. It was only until I designed a way to create a safety net for my individual clients through our managed funds, that I felt completely at ease with the process. The Buyout Agreement basically states that for a fee of one to two percent, depending on the loan-value ratio, the fund will buy the note from the lender for whatever the lender paid for



the note. So if there's a default and the lender chooses to have the fund buy it back, then we'll buy it back, no questions asked, for 100 percent of the lender's initial investment!

Now you might be saying to yourself, "Wait a minute! This property has grown in value, my cost on this would be $50,000 and it could take me two years, but I could get an attorney to handle that. I just have to write a check and it won't be too much work, but I'll make a 45 percent annual profit on it! I'm not going to give that to the fund!" That's okay, you don't have to enforce the Buyout Agreement. The Buyout Agreement is just there for your peace of mind.

I've also had a clients where we looked at the defaulted note, and I said "It looks like you're probably going to make 30-40 percent on this." And their response was completely opposite. "William, I just don't want to deal with the hassle. That's why I want the Buyout Agreement." Take it.

Is the Buyout Agreement a risk to the fund? You'd have to have a huge amount of notes all default, with property values that also drop an incredible amount, for this to happen, which is highly unlikely. The properties that we foreclosed on, we actually made money on, long before they could be a risk to the fund's principle. So, the Buyout Agreement is a good deal for the fund and the fund is happy to pay out on it.

THE BUY-OUT AGREEMENT

And Secured Investment Corp

What is overall message of the Buyout Agreement? Lee opened this meeting yesterday with the comment that the most powerful marketing tool you can have is a third party endorsement. And here is what this buyout agreement says: "There is an independent, unrelated registered investment advisory firm that thinks so highly of Secured Investment Corp's ability to evaluate, underwrite, and issue first trust deeds that they are willing to, sight unseen, buy back any trust deed that passes through their underwriting department." That's pretty blunt, right? But isn't that what the Buyout Agreement basically says?

The Buyout Agreement's Message:

There is an independent, unrelated registered investment advisory firm that thinks so highly of Secured Investment Corp's ability to evaluate, underwrite, and issue first trust deeds that they are willing to, sight unseen, buy back any trust deed that passes through their underwriting department.

Again, I've developed a great relationship with all the folks at Secured Investment Corp. Having built that relationship, knowing them personally and professionally, and having that kind of a trust factor, I was able to get to this level of confidence with them. I see how they are handling the files, what they are doing, and the extent that they are willing to go to for their clients, as well as the things they can't or the things they won't do. I had CB call me up the other day and say, "William you already wired money on this deal, but we are pausing it right now because of this challenge with the file."

Wow, wait a minute, these guys only get paid if that deal goes through and all they had to do is not call me. But that is their job, it's the right thing to do, and that's what they are here for.

I'm here on this stage, which by-the-way I'm not compensated to be here in any way, shape, or form, but I'm here on the stage because I think this is *The Golden Age of Trust Deed Investing*. If you are not investing in trust deeds right now, then just make a note to yourself, because there will never be another circumstance like it. Don't do what the average American does. Don't wait until the phenomenally, ridiculously, crazy good period of time has passed, and then say, "Wow that was great! I guess now I'll do it!" Stop the "buy high and sell low" mentality. Stop becoming a master of analysis while failing to take action. There has never been a time period in our history that was tailor-made for sitting in this room and learning the things you are learning this weekend, then today. I can't think of any other time. This is going to be one of those, "Ah, I wish I could go back then and buy real estate or invest in trust deeds." That's today. I don't sell real estate. I am not a realtor. I don't sell educational packages. I don't put on seminars on real estate. I don't have anything to gain from telling you this, except that I manage money and my job is to tell people the best places to put their money, even if it means not to giving it to me to manage.

So, if the endorsement of Secured Investment Corp and the summary of this investment strategy does not motivate you to action, and if you're not wanting to invest during this Golden Age of Trust Deeds, then just close the book and go home. I mean that with all due respect. There is nothing else that you're going to get here today that's going to change what you've heard so far, which is that trust deed investing and the Buyout Agreement are two incredible and powerful tools for you to use today.

An Important Note to Understand: The Buyout Agreement is separate from the company. Some of you may be thinking, "What if the company goes out of business?" Rest assured that it is a totally different entity, unrelated, and uncorrelated and it's just an investment fund. That's it. There are no other moving pieces. It's not my RIA firm and it's not me personally. Heaven forbid that I walk out of here and get hit by a truck, however, if it did happen, the fund is still in place and that Buyout Agreement is still valid.

Not do I think it's a possibility, nor to I like to dwell on the morbid, but I have clients who will actually ask me, or they get that look on their faces that says, "What happens if you die?"

I actually have that conversation often with clients. I don't know who talks more about their death, than I talk about mine! I mean, I just turned 40 last week so I'm not that old, but people want to know, especially when their money and investments are on the line.

Most investors I have found would rather take 10 percent and give up a point or two to the fund and take the Buyout Agreement, then try to squeeze out that last one or two percentage points but that's entirely your call.

If you buy a high-volume of trust deeds, I don't think you really need the Buyout Agreement because you've already diversified. You've done it with your own numbers. You basically created your own fund. If you're buying one, I think you should have the Buyout Agreement, and you'd be crazy not to.

How trust deeds fit inside an investment portfolio.

- Most individual investors would rather have 10% **AND** a Buyout Agreement than 11% or 12% without it… at least at first.
- This is an option for the investor, and IF there is a default there's an option to put it to the fund.
- If you aren't worried about Trust Deed risks then DON'T use this!

Answers the only objection, "What kind of guarantee?"

All investments carry risk, past performance is not a guarantee of future results.

Just so you know, I don't get paid if you do or don't get a Buyout Agreement. The fund gets the income. Who gets the interest and the income? The funders and the investors do. I just manage the fund. I have no axe to grind and I get no compensation whether you invest in a Buyout Agreement or not.

I do care in the sense that I wouldn't let one of my individual clients put money in one trust deed without a Buyout Agreement. That's required. Now, if they don't want it, I'm going to make them sign off saying I told them to take it, because anything can happen in that one-in-a-thousand or one-in-a-million scenario.

DOUBLE-SECURED

What's the Guarantee?

The only real objections I've ever heard from people regarding trust deeds are, "What's the guarantee? How do I know I'm going to get my money back?" This is what I call a **Double-Secured Investment**. First, the property secures it. So if the borrower defaults, you get the property. What if you don't want the property? Then the fund secures it, and they will buy it from you and take over the property. I don't know of anyone or any company out there that is offering this type of plan.

What is Double-Secured?

"What's the guarantee? How do I know I'm going to get my money back?" This is what I call a Double-Secured Investment. First, the property secures it. So if the borrower defaults, you get the property. What if you don't want the property? Then the fund secures it, and they will buy it from you and take over the property.

Now we already talked about the managed fund, but I just want to point out a few things and give you an idea of what is possible and what is doable. Again there's a fine line of who can even invest in a fund like that, but it has been great for my clients who can. We also talked about the risks. Last year there was a 11.4 percent net annual, rate of return. Net means net, it doesn't mean gross. I'm very specific with my words.

I was paid a management fee and the clients still made 11.4 percent. Do you think they were happy? Yes!

Can you do better than that on your own? Probably. Are you going to take the time to review the files? If you are, you just need to know what your rules are. Again one of

your rules might be, "I need to be able to make a decision in 10 minutes or 30 minutes or less" something like that. I'm one of those folks who if I say maybe and then I set it down, it will never happen. I just need to say a definitive "yes" or "no" because "maybe" means that I'll never remember to even think about it again. I have to make a decision at that point in time or I have to have a deadline like, "I will make a decision tomorrow at 2 o'clock" and put it on my calendar that way a decision is due.

TRUST DEEDS

Live Up to the Investor's Expectations (and then some)

Finally, trust deeds answer the question (in spades) of, "What are investors looking for?" If I asked, "What are you looking for?" You would want something that has low risk, but has a high yield. You don't want something that's stock market-based or has a correlation to the stock market. You want better than bonds return. You don't want a lot of risk from rising interest rates, because if interest rates go up, bond prices go down.

Trust Deeds – 2012's Best Investment

What investors need:

- Low risk, high yield investments
- Low correlation to stocks
- Higher yields than current fixed income
- Low risk in rising interest rate environment

Ask yourself: "Why isn't my advisor offering this?"

All investments carry risk, past performance is not a guarantee of future results.

You may know that or it's just new information, but that's very important. Regarding bonds, in the last 30 years interest rates have been going down and the prices of bonds have been going up. We've had a 30-year bull market in bonds. It's over. The next 30 years are probably going to be a bear market in bonds. If you want a scenario for that, go back to the end of World War II when we had a 30, almost 40 year period of time

where bonds and fixed income investments lost money relevant to inflation every decade for four decades.

When's the last time we had interest rates that were in a range that we're in right now? At the end of World War II. Interesting. Is your financial adviser telling you that? Ask yourself, "Why not?"

This is the Holy Grail of Investments. This is what's every financial adviser is looking for. It's an investment with a low risk and high yield and it has nothing to do with the stock market. Trust deeds have all the things that we were just talking about, and more!

Do you see why I call this *The Golden Age of Trust Deed Investing*?

Thank you for giving me this opportunity to show this to you today. I hope that what I have accomplished is to motivate you to take action. I try to educate my clients and educate you, the audience, to take action and full advantage of today's real estate and trust deed opportunities. They are both plentiful and fruitful, and as far as I'm concerned the best and most exciting investment strategies in today's economy.

WHERE DO YOU GO FROM HERE?

Your Next Step to Higher Returns

Thank you for watching. William's knowledge and insight into first trust deed investing is an invaluable asset to your revenue strategies. Now that you have this advantageous tool under your belt, you are well ahead of the game in wealth and retirement building.

Because you finished the video and this transcription, you obviously want more for you and your family and you're willing to educate yourself in alternative investments. You deserve an added educational gift. William and I would like to send you a copy of his highly acclaimed book, "The 7% Solution."

Just go to www.securedinvestmentcorp.com/7percent to get your immediate eBook bonus.

Thank you for your time and we look forward to helping you increase your net worth and showing you how to enjoy more, more often!