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Market Correction Preparedness

by L. Jake Carpenter, VP Investor Relations

Are you concerned about the risks associated with the stock, bond, and mutual fund market? There is rising concern about the inevitable market correction that is looming at some point in the future. A market correction means that the market is going to fall. Typically, when the market falls, it takes 4 to 5 years for it to rebound and recover the losses. This is particularly foreboding for investors of retirement age who depend on their investment income and cannot afford to ride the wave through the recovery period to regain their losses. You have probably heard the adage, "To be forewarned is to be forearmed." In this article, I will focus on the one type of investment that tends to provide the most significant advantages for investors when it comes to reducing risk, creating better diversity, and generating more spendable income.

In our 30+ years of experience in the financial service industry, we have observed that investor portfolios containing a portion in real estate consistently outperformed investor portfolios that didn't. There are many reasons to consider diversifying some of your assets into income-producing real estate in order to mitigate the risks associated with stock, bond, and mutual fund exposure. First, income-producing real estate typically provides dividend income, anywhere from 5 - 6% or more on the money invested. So, it will generally provide $50,000 - $60,000 of income per year for every million dollars invested. The dividend income is not guaranteed like a fixed annuity, but where else will you find a 5 - 6% income rate? Fixed annuities will be paying out somewhere around 1.5 - 2.5% on average. Although the advantage of a fixed annuity is the rate is guaranteed.

The second benefit to positioning some assets into closely held, income-producing real estate is that you may be able to take advantage of the depreciation schedule. The depreciation rate is a non-cash expense that you may be allowed to credit against the income you take from the real estate projects. This reduces the amount of the net income that is subject to ordinary income tax.

Another benefit of closely held, income-producing real estate is that it usually continues to grow in value, even while taking the dividend income. This is due to the capital appreciation of real estate. The property value goes up over time, and when the real estate holding is sold, the capital appreciation is shared amongst the investors. The dividend provides the income, and the capital appreciation provides the growth.

Finally, there is an added benefit when investing in a real estate fund, like the ECP Opportunities Fund I, LP, that has multiple real estate projects in one fund. There is diversity in the fund, with multiple real estate projects contributing to the fund's total value and cash flow. This further reduces risk and stabilizes returns.

If your risk tolerance is low and you want to limit your exposure to stocks, bonds, and mutual funds, remember that real estate historically has yielded stable and predictable income. Though past performance does not guarantee future results, I recommend that you consider if investing in real estate is right for you.

Call today to learn more about our current real estate offering. **(509) 665-8349**

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