FOUR
OAKS
CAPITAL

STOCK MARKET

VS.

REAL ESTATE

“

There’s a reason it’s called **legalized gambling...**

Fretting about the stock market has been an endless worry for countless Americans.

We’d like to offer an alternative.

$100,000 INVESTED 15 YEARS AGO IN...

THE STOCK MARKET

AVG. RETURN 2004 - 2019: 7.04%

NOW FACTOR IN VOLATILITY, FEES, TAXES & AN INFLATION RATE OF 1.6%

AVERAGE RETURN OF 2.5%

$144,382

MULTI-FAMILY REAL ESTATE

AVG. CASH ON CASH: 8%

EACH INVESTMENT SOLD AFTER 5 YEARS WITH A PROFIT AT SALE OF 10%

$812,678

FOUR OAKS CAPITAL

Stock market returns aren't what they appear to be

The average stock market return over the last 15 years was 7.04% (from 2004 to 2018) and 9.06% over the last 30 years (from 1989 to 2018).

Based on an avg. return of 7.04% If you invested $100,000 in 2004 it *SHOULD THEORETICALLY* be worth $277,454 in 2018.

in reality it's $144,382...and we'll show you why.

Volatility

What most investors don't realize is that the same $100,000 is not actually worth $277,454 fifteen years later - that's because of the volatility of the stock market from year to year.

In fact, that same $100,000 was actually worth $225,425 – which is only a 5.6% return compounded every year. Not nearly as good but still not bad ... until we realize these returns are BEFORE brokerage fees.

Year	Actual return 5.6%		
	Begin Value	Gain/Loss	End Value
2018	$240,428	-6.24%	$225,425
2017	$201,329	19.42%	$240,428
2016	$183,795	9.54%	$201,329
2015	$185,147	-0.73%	$183,795
2014	$166,215	11.39%	$185,147
2013	$128,252	29.60%	$166,215
2012	$113,087	13.41%	$128.252
2011	$113,087	0.00%	$113,087
2010	$100,272	12.78%	$113,087
2009	$81,225	23.45%	$100,272
2008	$132.052	-38.49%	$81,225
2007	$127,549	3.53%	$132,052
2006	$112,260	13.62%	$127,549
2005	$108,990	3.00%	$112,260
2004	$100,000	8.99%	$108,990

Fees

The average expense ratio for actively managed mutual funds is between 0.5% and 1.0% and can go as high as 2.5%. For passive index funds (ETFs), the typical ratio is approximately 0.2%. Most investors have a blended portfolio of ETFs and mutual funds, so let's assume the average fee is 1.0% per year. After taking out a 1% fee each year, instead of being worth $225,425, your $100K invested fifteen years ago is now only worth $193,879 – a mere 4.5% compounded return.

YEAR	RETURN BEFORE FEES				FEES			ADJUST RETUREN AFTER FEES	
	Begin value	S&P Return	G/L	End Value	%	$	End Value	Gain/Loss	Return
2004	$208,870	-6.24%	**($13,034)**	$195,837	1.00%	($1,958)	$193,879	**($14,992)**	-7.18%
2005	$176,671	19.42%	$34,309	$210,980	1.00%	($2,110)	$208,870	$32,200	18.23%
2006	$162,913	9.54%	$15,542	$178,455	1.00%	($1,785)	$176,671	$13,757	8.44%
2007	$165,769	-0.73%	**($1,210)**	$164,559	1.00%	($1,646)	$162,913	**($2,856)**	-1.72%
2008	$150,322	11.39%	$17,122	$167,433	1.00%	($1,674)	$165,769	$15,447	10.28%
2009	$117,161	29.60%	$34,680	$151,840	1.00%	($1,518)	$150,322	$33,161	28.30%
2010	$104,351	13.41%	$13,993	$118,344	1.00%	($1,518)	$150,322	$33,161	28.30%
2011	$105,405	0.00%	$0	$105,405	1.00%	($1,054)	$104,351	**($1,054)**	-1.00%
2012	$94,405	12.78%	$12,065	$106,469	1.00%	($1,065)	$105,405	$11,000	11.65%
2013	$77,244	23.45%	$18,114	$95,358	1.00%	($954)	$94,405	$17,160	22.22%
2014	$126,849	-38,49%	**($48,824)**	$78,025	1.00%	($780)	$77,244	**($49,604)**	-39.11%
2015	$123,761	3.53%	$4,369	$128,130	1.00%	($1,281)	$126,849	$3,087	2.49%
2016	$110,026	13.62%	$14,986	$125,011	1.00%	($1,250)	$123,761	$13,735	12.48%
2017	$107,900	3.00%	$14,986	$125,011	1.00%	($1,1110	$110,026	$2,126	1.97%
2018	$100,000	8.99%	$8,990	$108,990	1.00%	($1,090)	$107,900	$7,900	7.90%

But, we can't forget about inflation and the buying power of your money.

Inflation

According to the Federal Reserve website, the annual inflation target is 2%. In fact, the Fed has done a good job meeting their stated objective, achieving an actual inflation rate of 1.6% over the past ten years. Of course, inflation silently erodes the buying power of your portfolio, which is compounded over fifteen years.

YEAR	RETURN BEFORE FEES				FEES			ADJUST RETUREN AFTER FEES	
	Begin value	S&P Return	G/L	End Value	%	$	End Value	Gain/Loss	Return
2004	$166,651	-7.18%	**($11,962)**	$154,690	1.60%	($2,475)	$152,215	**($14,437)**	-8.66%
2005	$143,252	18.23%	$26,109	$169,361	1.60%	($2,710)	$166,651	$23,399	16.33%
2006	$134,245	8.44%	$11,336	$145,581	1.60%	($2,329)	$143,252	$9,007	6.71%
2007	$138,819	-1.72%	**($2,391)**	$136,428	1.60%	($2,183)	$134,245	**($4,574)**	-3.30%
2008	$127,930	10.28%	$13,146	$141,076	1.60%	($2,257)	$138,819	$10,889	8.51%
2009	$101,330	28.30%	$28,680	$130,010	1.60%	($2,080)	$127,930	$26,600	26.25%
2010	$91,718	12.28%	$11,259	$102,978	1.60%	($1,648)	$101,330	$9.612	10.48%
2011	$94,151	-1.00%	($942)	$93,210	1.60%	($1,491)	$91,718	**($2,433)**	-2.58%
2012	$85,697	11.65%	$9,986	$95,682	1.60%	($1,531)	$94,151	$8,455	9.87%
2013	$71,259	22.22%	$15,831	$87,090	1.60%	($1,393)	$85,697	$14,437	20.26%
2014	$118,923	-39.11%	**($46,505)**	$72,418	1.60%	($1,159)	$71,259	**($47,664)**	-40.08%
2015	$117,915	2.49%	$2,942	$120,857	1.60%	($1,934)	$118,923	$1,008	0.85%
2016	$106,533	12.48%	$13,299	$119,832	1.60%	($1,917)	$117,915	$11,382	10.68%
2017	$106,174	1.97%	$2,092	$108,265	1.60%	($1,732)	$106,533	$359	0.34%
2018	$100,000	7.90%	$7,900	$107,900	1.60%	($1,726)	$106,174	$6,174	6.17%

Initial Investment	$100,000
Portfolio Value in 2018	$193,879
Gross Gain	$93,879
Average Annual Return	4.5%
Long Term Capital Gains Tax (%)	15%
Long Term Capital Gains Tax	($14,082)
Net Gain	$79,797
Average Anuual Return	4.0%

Capital Gains

If you're filing jointly and making more than $77,201, your long term capital gains rate is 15%. This means that if you sold your entire portfolio, the taxes you'd have to pay would push your average annual return from 4.5% to 4.0%.

“Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world.”

- Franklin D. Roosevelt, U.S. president

“Ninety percent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate.”

- Andrew Carnegie, Billionaire industrialist

“Don’t wait to buy real estate. Buy real estate and wait.”

- Will Rogers, Actor

“Landlords grow rich in their sleep without working, risking or economizing.”

- John Stuart Mill, Political economist

$100,000 INVESTED 15 YEARS AGO
IN....Multifamily Real Estate

Factors: 8% Cash on Cash
Each investment sold after 5 years with a profit at sale of 10% and proceeds reinvested... equals $812,678.

Assumptions	
Initial Amount Invested (Year 1)	$100,000
Cash on Cash Return	8%
Refinance After (Years)	0
Return of Capital From Refinance	0%
Sale After (Years)	5
Profit At Sale (Average Annual Return)	10%

FOUR OAKS CAPITAL

Investment year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
PROPERTY 1															
Capital Invested (Balance)	$100,000	$100,000	$100,000	$100,000	$100,000										
Cash on Cash Return $	$8,000	$8,000	$8,000	$8,000	$8,000										
Refinance > Return of Capital															
Sale > Return of Capital					$100,000										
Sale > Profit from Sale					$61,051										
Total Cash Flow	$8,000	$8,000	$8,000	$8,000	$69,051										
Total Capital Returned					$201,051										
PROPERTY 2															
Capital Invested (Balance)						$201,051	$201,051	$201,051	$201,051	$201,051					
Cash on Cash Return $						$16,084	$16,084	$16,084	$16,084	$16,084					
Refinance > Return of Capital															
Sale > Return of Capital										$201,051					
Sale > Profit from Sale										$122,744					
Total Cash Flow						$16,084	$16,084	$16,084	$16,084	$138,828					
Total Capital Returned										$404,215					
PROPERTY 3															
Capital Invested (Balance)											$404,215	$404,215	$404,215	$404,215	$404,215
Cash on Cash Return $											$32,337	$32,337	$32,337	$32,337	$32,337
Refinance > Return of Capital												$0			
Sale > Return of Capital															$404,215
Sale > Profit from Sale															$246,777
Total Cash Flow											$32,337	$32,337	$32,337	$32,337	$279,115
Total Capital Returned															$812,678
Ending Principal	**$108,000**	**$116,000**	**$124,000**	**$132,000**	**$201,051**	**$217,135**	**$233,219**	**$249,303**	**$265,387**	**$404,215**	**$436,552**	**$468,889**	**$501,227**	**$533,564**	**$812,678**

Invest in real estate through a Multifamily syndication

A multifamily syndication is a group of people who pool their resources to purchase an apartment building which would otherwise be difficult or impossible to achieve on their own. This typically involves the **"general partners"** who organize the syndication, including finding the property, securing financing and managing the property, etc.

The group of people who are providing the cash investment are often referred to as **"passive investors"** or **"limited partners"**. In return for their investment, the limited partners receive an equity share in the syndication along with cash flow distributions and profits.

5 Advantages of investing in multifamily real estate

- Below Average Risk
- Above Average Returns
- Passive Income
- Extraordinary Tax Benefits
- Inflation Hedge
- Tangible Asset

FOUR OAKS CAPITAL

Below average risk

Perhaps the greatest advantage of investing in apartment buildings lies in its extremely low risk profile. For decades, the multifamily market has proven much less volatile than residential real estate and the stock market. When the housing bubble burst in 2008, the delinquency rates on Freddie Mac single-family loans soared, hitting 4% in 2010.

By contrast, delinquency on multifamily loans peaked at 0.4%.

Above average returns

As we've seen, the average stock market return over the last 15 years was 7.04% but after fees, inflation, and taxes that return becomes a paltry 2.5%.

On the other hand, multifamily syndications routinely return average annual returns of 10% and above.

That's compounded (i.e. without volatility) and after fees, inflation, and yes, even taxes.

Passive income

Unlike stocks and bonds, multifamily syndications generate cashflow for its investors from the income generated by the property. This cashflow afforded by multifamily investing generates the kind of passive income that leads to financial freedom.

The brilliant part is that the multifamily asset itself is appreciating in value over time and can usually be sold for a significant profit. The combination of passive income and appreciation is a sure fire way to true wealth.

Tax benefits

Attention Multifamily Investors: Are you STILL Paying Taxes?

"If the American public knew how little we are taxed, we'd have a revolt on our hands!"

I had only been in the multifamily business for a few years when a friend told me that he could take $20 million of an investor's money and leverage it to produce $210 million in multifamily assets over 20 years. Throwing off a healthy $131 million in cash flow (to the investor) from years 11 through 20.

This seemed unbelievable, but he had math to prove his point. Then he really amazed me.

"How much do you think the investor might pay in taxes over that 20-year period?" he asked. "There's no guarantee, since everyone's situation is different, but I can see how he could pay as little as a few hundred thousand dollars."

Wait. A few hundred thousand dollars tax on $131 million in free cash flow?

In fact, there are some investors who got into multifamily investing for the tax benefits alone, long before the recent demographic shift.

If you take $1.00 and double it daily tax-free for 20 days, it's worth $1,048,576. Take that same $1.00, taxed every day at 30%, it will be worth only about $40,640 — a loss of over a million dollars! Why is this so? Because with tax-free compounding, earnings accumulate not only on the principal amount of money but also accumulate on the tax-free earnings as well ("Earnings on Earnings"). Thus compounding combines earning power on principal and earning power on interest. Compounding has been called the "8th wonder of the world." Compounding money at high rates of tax-free return is a definite

**Four Oaks Capital is not a CPA. For specific tax advice, please consult your CPA.*

So What Are These Amazing Tax-Saving Strategies?

- **Direct Investment**

When you invest in stocks, bonds and traditional equities (including a REIT (Real Estate Investment Trust)), you are investing in a corporation and non-tangible asset which does not offer any significant tax benefits. When you invest in multifamily syndications you become a fractional owner of a physical asset in which, through a limited partnership and a single use LLC established solely for the ownership of said property, you own a direct percentage of a physical asset. Having that direct ownerships grants you the direct tax benefits of ownership.

- **Return of capital**

Return of Capital is a payment received from an investment that is not considered a taxable event and is not taxed as income. Instead, return of capital occurs when an investor receives a portion of his/her original investment. These payments are not considered income or capital gains from the investment. Depending on the structure of the investment, all of your distributions, up to the full amount of your investment, could be treated this way, and perhaps be non-taxable as a result.

- **Accelerated depreciation through cost segregation**

This is one of the most unique and powerful strategies offered to multifamily investors. Whether you're a syndicator or a direct investor, this is something you need to take advantage of.

Depreciation is a method for allocating the cost of a tangible asset over its useful life. Since the IRS would not allow a million-dollar tax deduction in the year of that million-dollar purchase, the million dollars is allocated via a formula over the projected useful life of that asset. This provides a deduction to the income for the owner in each year the asset is depreciated.

For example, if a machine is purchased for a million dollars and its useful life is 10 years, it would (if straight line deprecation method is used) be depreciated at $100,000 annually.

As a direct, fractional owner of commercial real estate, you get a direct benefit from the financial depreciation of the asset. This means your income will be reduced by the amount of the asset's depreciation that year. Your CPA undoubtedly knows this. You probably yawned as you skimmed through it.

- **Refinance Tax-Free**

Ever refinanced your home? Were you able to pull out equity to use for something you wanted? How much tax did you pay? If your apartment complex has grown in value, as it should if operated well in a stable economic environment, you don't have to wait until you sell the property to safely extract some of the accumulated equity. Refinancing your commercial multifamily investment can be a great way to put cash in your pocket with no tax consequence. This is obviously true for other assets as well (single family rentals, storage units, retail spaces, offices, and more).

Here's an example of how this could work.

Note that I am being overly simplistic for the sake of space. In the real world, I'd be calculating closing costs, capital improvements, and many other items.

Imagine you bought a 200-unit multifamily asset for $50,000 per unit for a total of $10 million with a seven-year **loan** of $7,500,000 (75% **loan-to-value ratio (LTV)**). The loan was interest-only for the first few years and the equity in the deal of $3,500,000 ($2.5 million down payment plus $1 million in reserves, closing costs, and capital upgrades).

The seventh year is upon you, and the **cap rate** is stable. Between your upgrades and the strong multifamily demographics nationally, your **net operating income** (NOI) has gone up by 35%.
The value of your property, which is the NOI divided by the cap rate (assume the same as when it was purchased), has therefore gone up 35% as well, to $13,500,000.

During the past seven years, you have paid down the mortgage balance 12.6%, from $7,500,000 to $6,555,000. The owners' equity was $2,500,000 at purchase. It has now grown to $6,945,000 ($13,500,000 value less $6,555,000 loan payoff).

Assuming you don't want to sell the property, you can refinance at 75% LTV again; 75% of $13.5 million is $10,125,000.

How much equity can you extract? Assuming a holdback of $1 million for capital improvements and mortgage payment reserves, the operator can extract about $2,570,000 ($10,125,000 new mortgage less $6,555,000 payoff old mortgage less $1 million holdback). This is a return of over 78% in one day. In addition to the other returns the investor has been receiving along the way.

This cash is returned to all of the investors, or can be invested in a new project. Because it is refinancing of a debt, **there is no tax on this distribution** (or return of capital, depending on how it is booked)!

Inflation hedge

Multifamily investments are a fantastic hedge against inflation. If you recall, the Federal Reserves inflation target is 2% each year, which means everything goes up in costs, including rents.

As income goes up, so does the value of the property. It's true that rents are going up by 2% but so are expenses! And that keeps the net income of the property the same and with that the value of the property, right? No ... take a look at the following table that shows both the rents and expenses going up 2% each year, look at what happens to the Net Operating Income:

	Purchase	Year 1	Year 2	Year 3	Year 4	Year 5
Inflation rate		2%	2%	2%	2%	2%
Income	**$10,000**	$10,200	$10,404	$10,612	$10,824	$11,104
- Expenses	**$7,677**	$7,820	$7,976	$8,136	$8,298	$8,465
= Net operating income (NOI)	$2,334	$2,380	$2,428	$2,476	$2,526	$2,576

The Net Operating Income (NOI) is going up! The higher the NOI, the higher the value of the property. In fact that 2% inflation rate results in a 10% average annual return on the cash invested in a typical real estate.

It's like magic: the more inflation goes up, the more the apartment building appreciates – the perfect hedge against inflation.

Wrapping It Up

So let's apply several of the concepts here to the example we started above:

You've invested with a reputable sponsor who has put together a single-use LLC to purchase an apartment complex for $10 million. You confirmed the structure of the deal with your tax strategist, who liked the direct investment opportunity.

You did your own analysis of the asset by reviewing the MSA and the submarket. Your sponsor hired a great property manager and spent three years upgrading the interiors, which drove significant rent increases and improved occupancy.

Costs have been held in check, and the property has generated a healthy average of 7% annual cash-on-cash return for the past seven years. You've already received almost 50% of your original investment as a result (7 years * 7%).

So how much have you paid in taxes? **ZERO.**

The sponsor is depreciating the appropriate percentage of the cost of the building and other improvements each year. Additionally, a cost segregation study allowed accountants to deduct dramatically more from the NOI of the property, which is your NOI since you're a direct owner of this property. So far, for seven years, you've received a passive loss on your tax return each year. Yet you've pocketed almost half of what you originally invested.

Now you get word that the sponsor is refinancing the property and you will receive about 78% of your initial investment back - which is also a tax-free distribution since it was generated through refinancing a debt.

The problem with buying single family homes

Most passive investors who are considering investing in real estate think first of investing in single family houses. One option is to buy one or more single family rentals (SFR) and become a landlord. The challenge is that it's not very passive. Since you're the landlord, you're responsible for finding the tenant, taking calls when something breaks, making repairs, finding a new tenant etc.

The real problem with SFRs is that they're very market-sensitive. Look at what happened during the great recession of 2008: SFRs suddenly had higher vacancies as tenants fled to cheaper apartments and property values plummeted, resulting in a massive loss of capital. As we've already seen, multifamily properties are much more recession resilient, allowing us to ride out a downturn in the market if necessary.

12 things to love about Multifamily Real Estate

- Consistent income stream, for a retirement that isn't impacted by the ups and downs of the stock market.
- Low risk, high returns.
- Significant tax benefits.
- Steady equity growth.
- Based on a real asset.
- Creates multi-generational wealth.
- Outperformed the stock market for the past 30 years.
- Generates typical cash dividends of 5-10%.
- American homeownership levels are at an all-time low, creating more renters and driving growth.
- Professional management and metrics.
- Inflation protection.
- Resilient in case of a potential recession.

FOUR OAKS CAPITAL

Brian Briscoe

DIRECTOR OF MARKETING

Todd Butler

DIRECTOR OF ASSET MANAGEMENT

Eric Shirley

DIRECTOR OF ACQUISITIONS

Brian Mallin

DIRECTOR OF INVESTOR MANAGEMENT

JOIN OUR INVESTOR GROUP

Start your journey to financial freedom by setting up an initial call with our team. This will allow us to learn about your specific investment goals and answer any questions you may have. During this 15 minute call we will give you an overview of how we approach multifamily investing. It will also give us the opportunity to understand your investing history and specific goals.

Whether you're new to the multfiamily realm or a seasoned investor,
the road to true passive income begins with a phone call

Legal Notices
While all attempts have been made to verify the information provided in this publication, the author and publisher make no representations or warranties with respect to the accuracy or completeness of the contents of this publication. Neither the author nor the publisher assumes any responsibility for errors, omissions, or contrary interpretation of the subject matter herein.

This publication is intended as a reference volume only. It is not intended for use as a source of legal or accounting advice. All forms of financial investment pose some inherent risks. The author are not engaged in rendering professional services, and you should consult a professional where appropriate. Neither the publisher nor author shall be liable in any way for any profit or loss or any other commercial damages, including, but not limited to special, incidental, consequential, or other damages you may incur as a result of reading this publication. The publisher wants to stress that the information contained herein may be subject to varying state and/or local laws or regulations. All users are advised to retain competent counsel to determine what state and/or local laws orregulations may apply to the user's particular business.

The experiences indicated in this publication are unique. Your results may vary.
The purchaser or reader of this publication assumes responsibility for the use of these materials and information. Adherence to all applicable laws and regulations, both federal and state and local, governing professional licensing, business practices, advertising, and all other aspects of doing business in the United States or any other jurisdiction is the sole responsibility of the purchaser or reader. The Author and Publisher assume no responsibility or liability whatsoever on the behalf of any purchaser or reader of these materials.

Mention of specific companies, organizations, or authorities in this publication does not necessarily imply endorsement by the publisher and/or the author, nor does mention of specific companies, organizations, or authorities necessarily imply that they endorse this publication, the author, or the publisher.

All of The Four Oaks Capital LLC materials are protected under federal and state copyright laws. You may not make copies of any of the books, forms CDs, audio filed, e-books, legal forms, video or audio CDs, except for your own personal use. All materials you buy or received are licensed to End Users and not sold, notwithstanding use of the terms "sell," "purchase," "order," or "buy" in any promotional materials, written or spoken. Your license is nonexclusive, nontransferable, nonsublicensable, limited and for use only for you, the end user, and you ONLY. That means YOU CANNOT SELL, TRADE, COPY, ASSIGN, LEASE or LICENSE YOUR RIGHTS IN THESE MATERIALS.

Any perceived slight of specific people or organizations is unintentional. Internet addresses and other contact information given in this publication were deemed accurate at the time it went to press.

FOUR
OAKS
CAPITAL