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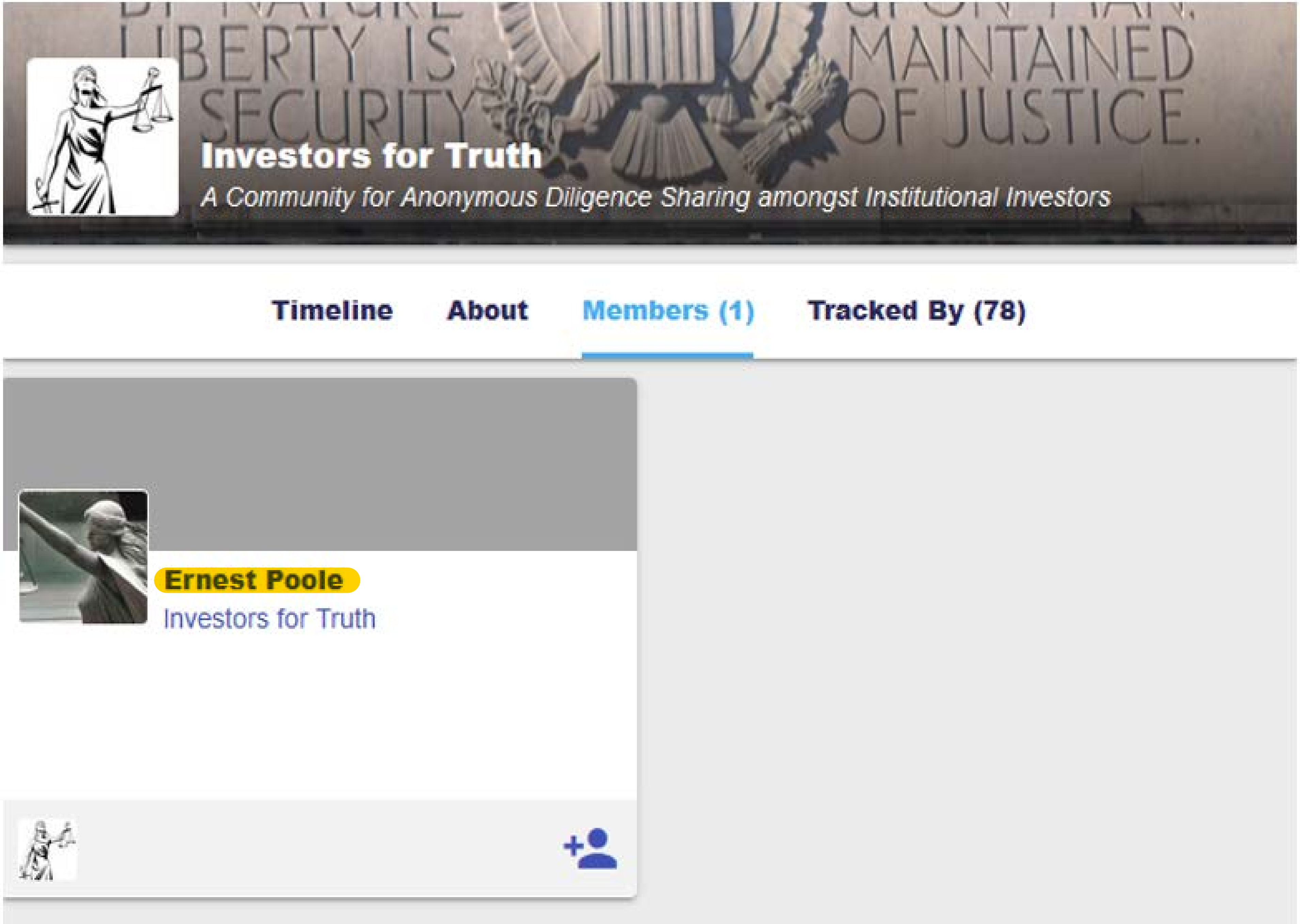
Investors for Truth

Investors for Truth was created by "Ernest Poole" and designed to serve as a public outlet for institutional investors and asset managers to anonymously share their diligence around fraudulent corporations and their business practices. This community is viewable by anyone in a read-only fashion and membership, with anonymous posting authority, is open to any institutional investor or asset manager with greater than $250mm in aggregate AUM. If you meet this criteria, and would like to join the community email me investorsforchange at gmail dot com.


LIBERTY IS
SECURITY
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A Community for Anonymous Diligence Sharing amongst Institutional Investors
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Ernest Poole
Investors for Truth

Ernest Poole, Investors for Truth

Report

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Summary

Member Since

December 9, 2015

Affiliations

Professional Details

Firm Type

Hedge Fund Manager

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December 14th, 2015

A Recap of Recent Posts on UDF

Below you will find links to the 5 referenced PDF attachments along with their original publish date

1) A Texas Sized Scheme – Introduction to UDF (Posted 12/10/15) http://hvst.co/1IQPQeF
2) Letter Sent to UDF Auditor (Posted 12/10/15) http://hvst.co/1IQPULr
3) How the Scheme Works – Shahan Prairie Case Study (Posted 12/11/15) http://hvst.co/1IQPYL6
4) Lawsuit Referenced in Letter to UDF Auditor and Commentary (Posted 12/14/15) http://hvst.co/1IQPXXr
5) Bankruptcy Petition Referenced in Letter to UDF Auditor and Commentary (Posted 12/14/15) http://hvst.co/1IQQ2KN

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Posted December 10th, 2015

A Texas Sized Scheme

"Only when the tide goes out do you discover who's been swimming naked."

Exposing the Darkest Corner of the REIT Business
United Development Funding (UDF)

PDF 1 PDF 2

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A Texas-Sized Scheme
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"Only when the tide goes out do you discover who's been swimming naked." Six years ago, the Federal Reserve set in motion one of the greatest financial experiments on record: setting interest rates at zero and seeing what happens. To this point, the result has been massive asset reflation. While what happens next is still the great unknown, low interest rates and rising asset values have provided great cover for many mistakes made over the past six years across all asset classes. The Fed has truly been the rising tide that has lifted almost all boats. Amid this rising tide, an asset class best known as public non-traded REITs emerged as a prominent retirement product sold almost exclusively to retail investors. When the tide goes out, public non-traded REITs will be exposed for the terribly flawed economics on which the $100 billion dollar business was built.

A public non-traded REIT is public because it has the minimum number of shareholders required to be public; it is non-traded because it is not listed or traded on a major stock exchange. This product is sold to retirees as a low-risk, long-term income-producing asset that is not subject to stock market volatility – pedaled as a fixed-income product without exposure to interest rates. In reality, an investment in a public non-traded REIT is typically an investment in an illiquid "start-up" real estate company that must accumulate assets quickly and is subject to the same market risks (or greater market risks) as its publicly traded, more liquid peers which benefit from lower costs of capital.

When boiled down to the least common denominator, public non-traded REITs exist because of high upfront commissions that provide the incentive for financial advisers to sacrifice their client's best interest for their own personal greed. Prior to a non-traded REIT ever purchasing an asset which may or may not generate future positive returns, ten to fifteen percent of an investor's capital is consumed by upfront offering fees, broker commissions and asset origination fees. While the high upfront fee load incents "investment advisers" to push the product and is a primary reason why public non-traded REITs exist, it is also why so many are set to fail from the beginning.

The low interest rate environment has also contributed to the growth of the non-traded REIT asset class. Yield-starved retail investors are promised above market returns and the non-traded REITs deliver, at least initially. How can a non-traded REIT with no assets to start, subject to exorbitant fees and commissions, deliver above market returns almost immediately? First, brokers mark the investment on the investor's statements at the offering price