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Los Angeles — Irvine, CA | Leading Wealth Advisor
Signature Estate & Investment Advisors LLC
Mark E. Copeland, CFP®, Senior Partner

Why are REITs attracting investors again?

By Mark E. Copeland

In a dismal real estate market, some see a prime opportunity in REITs. But first, what do you own when you invest in a REIT? An equity REIT offers investors an opportunity for fractional ownership of a real estate portfolio. The portfolios may include high-quality commercial properties, shopping malls, apartment buildings, office complexes and, sometimes, specific projects such as golf courses or college housing.

Investors purchase common shares within real estate investment trusts (REITs), which trade on the major exchanges. A wrinkle distinguishing a REIT from a corporation is that a REIT must distribute 90 percent of its operating profits as dividends. This exempts a REIT from having to pay corporate income tax, thus allowing the security to maintain competitive dividends. Furthermore, REITs allow investors to participate in real estate opportunities without property-management obligations.

There are three different classes of REITs: **1) Equity REITs** invest in hard assets. The vast majority of REITs are equity REITs, and most specialize in income property. **2) Mortgage REITs,** which do not invest in hard assets. Instead, they take out short-term loans to buy mortgage-linked securities. Their profits stem from the difference between the long-term interest rates of the bonds and the short-term interest rates paid on the loan. **3) Hybrid REITs** invest in both hard assets and mortgage-linked securities.

SELECTING REITS

Although a security, the valuation process is quite different than that of stocks. Funds from operations are more important than traditional price-to-earnings ratios. Analyzing a REIT requires understanding the accountancy distortion caused by depreciation and paying close attention to the macroeconomic influences within the REIT's focused real estate sector.

OPPORTUNITIES TODAY

If you assume REITs have performed poorly this past year, you are wrong. Indexes have shown that many REITs have outperformed stocks over the last two years. The NAREIT index was up 27.58 percent last year compared with a 15.05 percent total return for the S&P index. With reduced real estate valuations and stricter credit terms, the real estate market has many distressed properties, so now may be a prime time to get into a REIT in pursuit of high dividends and long-term appreciation, while maintaining market liquidity. The need for real estate to hedge inflation and to provide portfolio diversification makes REITs a desirable component of a portfolio in today's volatile economic environment.

The following REIT sectors are positioned to outperform:

Multifamily housing. Capital market conditions, namely institutional demand for REIT equities, are important. By mid-summer the market for multifamily housing REITs continued to be positive.

College student housing should continue to shine with strong rental demand and rent pricing.

Mortgage REITs have provided tremendous dividends the past two years and are benefiting from low short-term rates and a supply of well-priced mortgage securities. The potential for rising interest rates will pressure mortgage REITs' ability to maintain leverage and may result in reduced dividends.

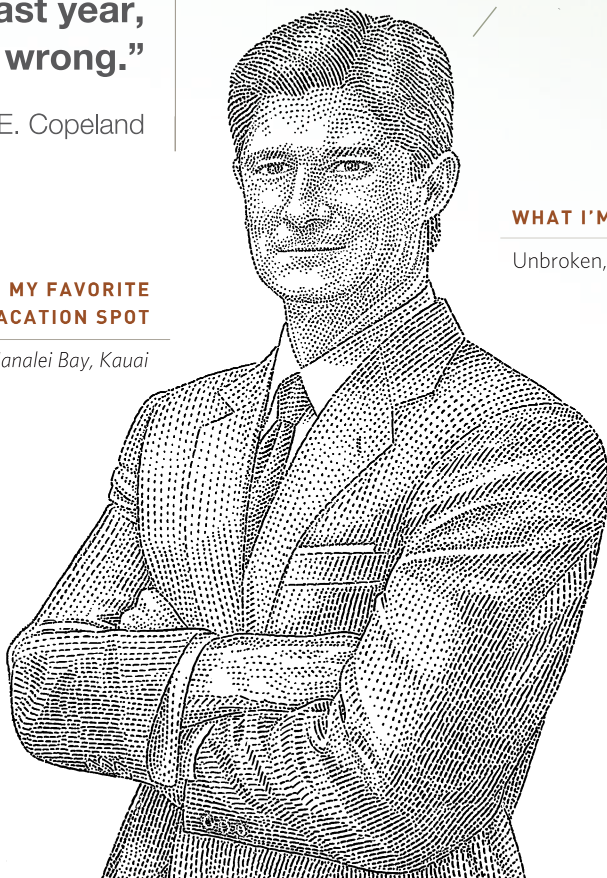
While not ready to outperform, healthcare REITs are in a position to benefit from an aging U.S. population. Questions about Medicare and Medicaid funding drove down share prices of healthcare REITs this summer. With high dividend yields and positive U.S. demographics, the growth potential for this sector is bright. The aging U.S. population is providing a steady flow of demand. As funding issues gain clarity, this sector should rebound from a rough summer. For investors willing to endure some risk, the opportunity for upside growth may be significant.

“If you assume REITs have performed poorly this past year, you are wrong.”

– Mark E. Copeland

How to reach Mark E. Copeland

Please call my office at 949.705.5188 to schedule a meeting, either over the telephone or face to face.



WHAT I’M READING NOW…

Unbroken, *by Laura Hillenbrand*

MY FAVORITE ESCAPE/VACATION SPOT

Hanalei Bay, Kauai

MY HOBBIES ARE…

Coaching my children’s sports teams, golfing and traveling

About Mark E. Copeland

Mark E. Copeland has been in the financial services industry since 1987 and is one of the four founding partners of SEIA. Fewer than 10 years after the company’s inception, SEIA reached the milestone of $1 billion in assets under management. Mr. Copeland graduated from the University of California, Los Angeles, with a degree in political science and is a Certified Financial Planner professional. His emphasis is in investment planning and wealth management for affluent individuals, athletes and corporations. He is a frequent speaker on the subjects of asset management, retirement plan distribution methods, and estate preservation. An Orange County native, he resides in Tustin, Calif., with his wife, Kathy, and their four children.

Assets Under Management
$419 million
$2.1 billion (firm, as of 7/31/11)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)
$5 million (Private Client Group)

Largest Client Net Worth $100 million+

Financial Services Experience 23 years

Website www.seia.com

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodians for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Estate, retirement, corporate benefit, income tax and insurance planning; investment advisory and money management services

Association Memberships
National Association of Insurance and Financial Advisors, Financial Services Institute, Financial Planning Association

Email mcopeland@seia.com

Signature Estate & Investment Advisors LLC | 2010 Main Street, Suite 220, Irvine, CA 92164 | 310.712.2323

Mark E. Copeland, CFP®

Senior Partner

Signature Estate & Investment Advisors LLC

2010 Main Street

Suite 220

Irvine, CA 92164

Tel. 310.712.2323

Email: mcopeland@seia.com

www.seia.com

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