

# JUNE 2010 NEWSLETTER

## ALTA PACIFIC MORTGAGES & INVESTMENTS

[www.altapacificmortgages.com](http://www.altapacificmortgages.com)

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### WHAT'S NEWS?

Alta Pacific's mortgage fund welcomed 20 new investors in May. Whether introduced to Alta Pacific through a financial advisor or through an Alta Pacific partner, all investors are welcome to contact Alta Pacific directly to have any questions or inquiries answered.

Alta Pacific also welcomes 3 new members to its team. Dorianna Langman in Media & Investor Relations, Pierre Marchildon in Investor Services, and Trent Schaber joins our Mortgage Specialists.

Investors, advisors and agents are all encouraged to contact Dorianna in the Vancouver office at 778-328-7401 or by email [dorianna@altapacificmortgages.com](mailto:dorianna@altapacificmortgages.com).

Full contact details for all members of the Alta Pacific team, including each of the partners, can be found on our website (see Contacts page); or call the main office line. All are invited to visit us in either Vancouver or Edmonton anytime.



### WE ALL WANT ANSWERS, ARE WE LOOKING IN THE RIGHT PLACES?

Being in the mortgage industry, we are asked daily about rates; what's going to happen and when? As you may or may not know, there are considerable differences between rates in the short term mortgage market (3 to 24 month terms) versus full term market (25-35 year terms). The full term market has the media's attention and it affects many Canadians directly when fixed and/or variable rates change. The short term market on the other hand is more constant, making investing in Alta Pacific MIC a wise investment decision.

This month, Alta Pacific's Director of Operations (and Mortgage Specialist) Scott Hiebert shares some thoughts and opinions on full term mortgage rates.

Every day at least one person asks me the following question "What do you think will happen with rates?" Housing is a big issue, and people aren't sure if they should be buying or selling; or on the mortgage front, if they should lock in or choose variable. It is as though the real estate market is being treated like the Money Markets with a very short term mindset. We all look for answers; some of us ask our family members, our real estate agents or Internet. We find information from a variety of sources; looking to validate our own past choices but also looking for advice on big decisions coming up. The truth is, no one knows exactly what's going to happen. It's easy to hop on the bandwagon or through emotion make a wrong decision - whether it's the right time to buy, what type of mortgage to get or where to invest. Even Mark Carney (Bank of Canada Governor), the man with his hand on the switch, would be hard pressed to predict exactly what the Prime rate will be in the next 6 months or year. Bond rates, the main influence on 5-year mortgage rates, dropped over 60 basis points (0.6%) from their high of 3.2% last month (at the time of this writing May 26). Those rates are based on market predictions of what rates will be over the next 5 years. Truth is, the Bond graph over the last 12 months looks like an erratic heart monitor. Do you think anyone could have predicted those rates on a monthly basis?

My advice is not to get caught up in the daily news and stress over things you cannot control. Economies, rates and investments go up and they go down. If you seek advice, look to those that are qualified, do proper research in their field and weed out the Internet blogs written by spinsters with no more of an understanding of the market than their own opinion. When you do find that person you trust, just remember this, even they don't have a crystal ball.

## ALTA PACIFIC MIC FAST FACTS

- 96 investors (BC, AB, SK)
- 21% investors choose Alta Pacific's monthly cash dividend
- 79% investors choose to re-invest dividends
- 69% investing with registered funds; RSPs, TFSA, LIRA, RIF etc.
- 31% investing with open cash funds
- Corporate year end is June 30
- Target LTV for overall fund – 65%
- Current LTV for fund – under 50%
- 1st mortgages – 57%
- 2nd mortgages – 43%
- 3rd mortgages – 0%
- Secured by residential mortgages – 59%
- Secured by commercial mortgages – 41%
- BC mortgages – 57%
- Alberta mortgages – 29%
- Saskatchewan mortgages – 14%
- Average LTV on residential – 54%
- Average LTV on commercial – 33%
- Mortgages in default – 0

Loan to Value (LTV) percentages are based on independent third party appraisals at the time of funding. Alta Pacific MIC does not hold mortgages with greater than 12 month terms. Appraisals are all less than one year old and therefore the fund manager remains confident in LTV stated with minor variance.

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## MICS MAKE NEWS

On May 21st, the National Post ran an article that spoke directly to Canadians about investing in MICs (Mortgage Investment Corporations) and provided insight into how MICs compare to REITs (Real Estate Income Trusts). The article was written by the President of Westcourt Capital – David Kaufman - a Toronto based Exempt Market Dealer. You can find the full article here – <http://www.financialpost.com/story.html?Id=3055942> as well as a 5 minute interview with David here [http://www.youtube.com/watch?V=LgdJ5S\\_kbcw](http://www.youtube.com/watch?V=LgdJ5S_kbcw).

David Kaufman - In this column, I will discuss MICs, which are similar to REITs in that they produce income from a diversified pool of assets, but different in the sense that the assets are not real property itself, but mortgages secured against real property.

The distinction is significant in two ways. First, mortgages that are properly structured are secure fixed-income investments (as opposed to REITs, which involve the equity ownership of the real estate assets). Second, as debt instruments, mortgages do not appreciate in value the same way that real property can. As a result, the total returns (distributions plus capital appreciation) from MICs will generally be marginally lower than those of a REIT, but with a lower risk profile.

***“The total returns from MICs will generally be with a lower risk profile”***

MICs are a popular investment vehicle for Canadians wishing to invest in mortgages, largely because of the significant regulations imposed on MICs by the Income Tax Act. Among other rules, MICs must invest at least 50% of their pooled capital in residential mortgages, provide audited financial statements, and have a minimum number of investors.



Once a mortgage fund is "MIC compliant," it is automatically eligible for registered accounts. This makes MICs an excellent option for RRSP investors, who are able to indefinitely defer the taxes that MIC investors are generally required to pay (the distributions are treated as interest income and are fully taxed).

Whenever I speak with clients about the prospect of investing in a mortgage fund, the conversation naturally gravitates towards the sub-prime mortgages that crippled the entire U.S. economy in recent years. There are few similarities between the way MICs do business and the irresponsible and fraudulent model employed in the United States during that period. The major difference is that, as a result of the fact that MICs generally do not securitize the mortgages on their books to make them "someone else's problem," they enter into much more conservative mortgage arrangements with transparent loan provisions and relatively low loan-to-value ratios. It is, however, important for any investor to engage in significant due diligence before making a long-term investment in a MIC or any other private security.

Prospective investors should also seek the counsel of independent dealers who specialize in identifying real estate related investments with sound track records and investment methodologies.

In a landscape in which it is currently very difficult to find conservative investments offering attractive yields, suitable MICs offer investors two key benefits: the opportunity to derive satisfying risk-adjusted returns and the ability to sleep well at night at the same time.

David Kaufman is the president of Westcourt Capital Corporation, an Exempt Market Dealer specializing in conservative, alternative income-generating investments. [drk@westcourtcapital.com](mailto:drk@westcourtcapital.com)

