



Hughes Capital Investor Update

Is it just me, or does time go faster as you get older? You always hear people say that, but I wonder if there is any actual difference in the way our brains perceive time as we get older. What I can tell you is, when it comes to writing these updates, they seem to come quicker every month.

Starting Off Strong

So, what has happened in the last month? **We have purchased 41 homes in the last 30 days, with 7 of them in a pending sale contract.** I guess that isn't bad for our first 30 days in the business of buying affordable homes in the Midwest and Southeast.

The buys won't all be that fast. We were able to get a portion of these out of a wholesaler's inventory, saving us 30 to 60 days, which is huge. As these properties are sold to homeowners, our new fund, Guardian, will take possession of the mortgages we originated on them. Guardian is built to produce a 12% targeted return.

Covering All Our Bases

We have been running stress tests on Guardian because **what is more important than making money? NOT losing money!** With all of our funds, Steve and I spend endless hours on what can go wrong scenarios and it is no different with Guardian. Our Guardian stress tests show that we could have as high as a 45% default rate (buyer stops paying), which would bring the yield down to 0% for the fund.

That 45% seems like a huge number because the historical data shows a default rate of only 8%. In this scenario, it is important to remember that 55% of the mortgages would still be paying. **That 55% is essentially paying the principal payments on the whole portfolio.** Even if defaults did go that high, Guardian would still receive 6-7% back in cash flow (payments) which would be considered the principal portion. Hopefully that is not too confusing.

We know defaults will happen, but we have very cost effective systems in place to go out and find other buyers for the homes. **Most of the time, Guardian will actually benefit in the "life happens" event that a homeowner has to walk away.** The home is usually worth a little more due to the homeowner fixing it up and Guardian gets to collect another down payment. This all results in a more valuable mortgage.

Someone asked me recently how interest rates will affect Guardian. **This is fun to answer, because they don't; we originate the mortgage and set the interest rate. We ARE the Bank!** These are affordable homes in the \$30K to \$40K range. They won't appreciate much and they sure can't go down much in value. They are simply a cash flow asset. In a down economy, they may even perform better, since people have to live somewhere and will necessarily have to scale down into these homes.

Staying on Course

ROI Strategies continues to move forward with the senior assisted living properties. The one we purchased in South Reno has the architecture done, and we are starting to work on its special use permit. We are still in contract to purchase the business with two already functioning properties, but not until March 1st. This month we also had 7 rent-to-own clients acquiring their mortgage and buying their homes this month.

Not much is new with Assuravest other than it is doing what it is supposed to do. Sentinel will have started selling its notes on the open market by the time you read this. Advanced Commission is moving right along. We are working on collecting some of our first late pays, or defaults, depending on how you look at them. **We modeled our business plan to expect defaults at 3%, but we are at 5% today.** That number should come down as we work through them and we are already seeing signs of that happening. We are at over \$4.2M in advances and are averaging about \$100K to \$140K paid out per week.

Lastly, we are hosting an all-day event on March 11th called InvestX. Think of it as a way to enlighten yourself toward better investing, wealth management, and capital preservation. We have included more information about this event in this newsletter. Our goal is to make it fun, educational and well worth your time. Call (775) 297-4970 or email Stacy Silva at Stacy@HughesCapital.com if you are interested in attending.

Until next month,

Steve Sixberry

Greg Hughes