



NOT ALL REITS ARE CREATED EQUAL

The Search For True Diversification

In the investment world, correlation refers to how two investments (or indices) perform in relation to each other. For example, historically, the performance of large-cap mutual funds has generally mimicked the return patterns of the S&P 500 index. Therefore, you might say that large-cap funds are highly correlated” to the S&P 500. Conversely, bond funds have typically displayed a very low level of correlation to the S&P 500.

Adding investments to a portfolio that are “non-correlated” to the market, and each other, may help in building a more diversified investment portfolio that can weather market fluctuations.

That’s where real estate comes in. Real estate in the form of non-traded REITs (real estate investment trusts) can help further diversify and enhance a portfolio due to their low level of correlation to the stock and bond markets. But BEWARE – not all REITs are created equal.

The table below illustrates the correlation of non-traded REITs (represented by the NCREIF Property Index*) and publicly traded REITs (represented by the NAREIT ALL REIT Index) to various market indices. As you can see, the index has a much lower degree of correlation to the other market indices thus providing enhanced diversification to an overall investment portfolio.

5 YEAR CORRELATION MATRIX (Q4 2004 - Q3 2009)

	1	NCREIF PROPERTY INDEX																	
NCREIF PROPERTY INDEX	1																		
		2	NAREIT ALL REIT																
NAREIT ALL REIT	2	0.32																	
			3	RUSSELL 2000 VALUE															
RUSSELL 2000 VALUE	3	0.31	0.95																
				4	RUSSELL 2000 GROWTH														
RUSSELL 2000 GROWTH	4	0.27	0.82	0.89															
					5	RUSSELL MID-CAP VALUE													
RUSSELL MID-CAP VALUE	5	0.31	0.91	0.94	0.93														
						6	RUSSELL MID-CAP GROWTH												
RUSSELL MID-CAP GROWTH	6	0.27	0.73	0.77	0.95	0.92													
							7	BARCLAYS AGGREGATE BOND											
BARCLAYS AGGREGATE BOND	7	-0.27	-0.01	-0.14	-0.26	-0.17	-0.25												
								8	S&P 500										
S&P 500	8	0.35	0.86	0.89	0.93	0.97	0.94	-0.13											
									9	VANGUARD SMALL CAP INDEX									
VANGUARD SMALL CAP INDEX	9	0.26	0.90	0.95	0.98	0.98	0.92	-0.19	0.95										

How To Read The Graph

To see the correlation between the NCREIF Property Index and the Russell Mid Cap Value Index, start at the top of column 1 and look down to where it meets row 5. You can see that at 0.31 there is little correlation between the two indices. Notice how the NAREIT ALL REIT Index (representing publicly-traded REITs) has a higher level of correlation (0.91) to the Russell Mid Cap Value Index.

CORRELATION LEVEL

- .70 to 1.0
- .11 to .69
- .10 to -.10
- .11 to -.69
- .70 to -1.0

SOURCE: MORNINGSTAR

FOR MORE INFORMATION CONTACT YOUR FINANCIAL REPRESENTATIVE

*The NCREIF Property Index is an index of quarterly returns reported by institutional investors on investment grade commercial properties owned by those investors and is not a measure of non-traded REIT performance. The NCREIF Index does not reflect management fees. Returns to our stockholders will be reduced by our management fees. The NCREIF Index is based on appraisals and does not reflect the same market volatility as the NAREIT Index which is based on transactions in the marketplace. In addition, the NCREIF Index is leverage free. While not a measure of non-traded REIT performance, our management feels that the NCREIF Index is an appropriate and acceptable index for the purpose of evaluating the relative volatility of an investment in non-traded REITs as compared to traded REITs. Indices are not available for direct investment. Volatility is the standard deviation over the period of time being evaluated. Past performance does not guarantee future results.

REITs may not be suitable for all investors. The value of a REIT may be worth more or less than its original cost, investors may have difficulty selling shares, REITs involve risks associated with an investment in real estate such as market risk, interest rate risk and credit risk, and there are significant fees and charges inherent in investing in REITs.

An offer can only be made by a prospectus that contains more complete information on risks, management fees and other expenses. There is no guarantee that any real estate strategy will be successful. Investment in this REIT involves significant risks including but not limited to: no secondary market; limitation on transfer and redemption of shares; we may make distributions that are not from income and are a return of capital; we may lack property diversification; we are dependant upon our advisor to select investments and conduct operations; and our advisor will face significant conflicts of interest. Investments are not bank guaranteed, not FDIC insured and may lose value. **Securities offered through Pacific Cornerstone Capital, Inc. Member FINRA and SIPC.**

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