5 Advantages of a Managed Trust Deed Portfolio vs. a Mortgage Fund

Which is the better investment: A Trust Deed Portfolio or a Mortgage Fund that invests in Trust Deeds? You have probably already figured out that you should add non-correlated Alternative Investment, current income producing Trust Deeds to your investment portfolio to be truly diversified and protected from the volatile world of Stocks and Bonds. This article explains the difference and benefits to an investor building his own Trust Deed Portfolio through a Hard Money Brokerage Company or investing in a Mortgage Fund managed by a "Fund Manager".

Yield: The first reason for building a Trust Deed Portfolio vs. a Mortgage Fund is simple. It's a about the Yield! Most Mortgage Funds pay in the 8%-9% range while Trust Deeds pay in the 10% - 11% range. Why are the returns different when the underlying asset is the same? Simple: More hands in the cookie jar and more fees with a Mortgage Fund. Read any Mortgage Fund Prospectus and find out the many ways Fund Managers and Associates of the Fund squeeze fees out of a Fund. Here are just a few examples of Mortgage Fund Fees that you won't see in a Trust Deed Investment Portfolio:

- Asset Management Fees
- Acquisition Fees
- Disposition Fees

Not only to Funds add these fees in a Fund, an investor typically does not get to participate in yield enhancing late payment fees and default interest that significantly boost the yield in a Trust Deed Investment.

Individual Property and Borrower Selection: Personal due diligence, transparent Loan to Values (LTV) and individual property identification are inherent to Trust Deeds Investments. Investors can select the type of Asset, term, LTV, borrower profile, FICO, exit strategy and other investment parameters on each loan. In a Mortgage Fund investment, once a fund secures the cash from an investor, a "fund manager" will make the acquisition and disposition selections without review or input from the investor.

Ability to Vary Maturities Ensuring Continuing Cash Flow: Trust Deeds allow for selection of prepayment penalty terms and maturities. A diversified Trust Deed Portfolio has maturities spread over Years 1 to 5. This ability to monitor payments and payoffs provides an investor with a unique cash flow management dial.

Exit Strategy Certainty: With a Trust Deed, each loan has a defined Exit Strategy. Whether the payoff derives from a conventional refinance or payoff from sale of the asset, the exit is defined and the timing is defined. When a payoff is requested of a Mortgage Fund, the manager has to somehow find the cash to reimburse the investor. These cash reimbursement requests are fulfilled as the cash becomes available to the Fund. If there are more withdrawal requests than new investments flowing into the fund, these requests remain unfulfilled.

Initial Investment Value: Mortgage Funds use Net Asset Values (NAV) to determine unit pricing. Since theFund typically invests in blind pools, an Investor is not necessarily aware of the underlying credit risk in the basket of loans, and the NAV may or may not accurately reflect all the aspects of the underlying credit risk.

For those investors that want to give complete control to a Fund Manager and don't mind a reduced return, a Mortgage Fund might be a better fit. For those Investors that like a higher yield and a little more active and transparent approach to their investments a Trust Deed Portfolio is the best strategy. Which approach is right for you?

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