# *Why DSTs Should be Considered for Portfolio Cash Investments*

Accredited Investors are mostly very familiar with traditional portfolio asset management involving, stocks and bonds. But with traditional portfolio, accredited investors also continuously seek out non-correlated investments, those that can balance or even reduce overall portfolio volatility, but still yet provide current income and capital appreciation potential.

Much of what we see in the media on DSTs focuses on exchanging from a real estate holding into a Delaware Statutory Trust (DST). Thankfully, Internal Revenue Code, Section 1031 and Delaware's statutory law, you can defer capital gains taxes from the sale of your property, without stressing to find a qualifying "like" property in a 45-day period.

So looking at DSTs is a logical consideration given that a DST gives the perks of property ownership, while avoiding the "Terrible Ts" of Taxes, Toilets, Trash, Time loss and Tenants, , but does not give up its value as a tax favored investment that is non-correlated with the stock market ups and downs.

**Can we talk?**

The reality is that many accredited investors became "accredited" in terms of wealth by investing in real estate. So, if you do not have a property now in your portfolio, but want income, capital appreciation potential and have cash, considering a DST is a logical consideration.

A DST is an interesting investment option, especially if you want to add real estate holdings in your portfolio to seek out a non-correlated investment, that still have the potential or capital appreciation and current income.

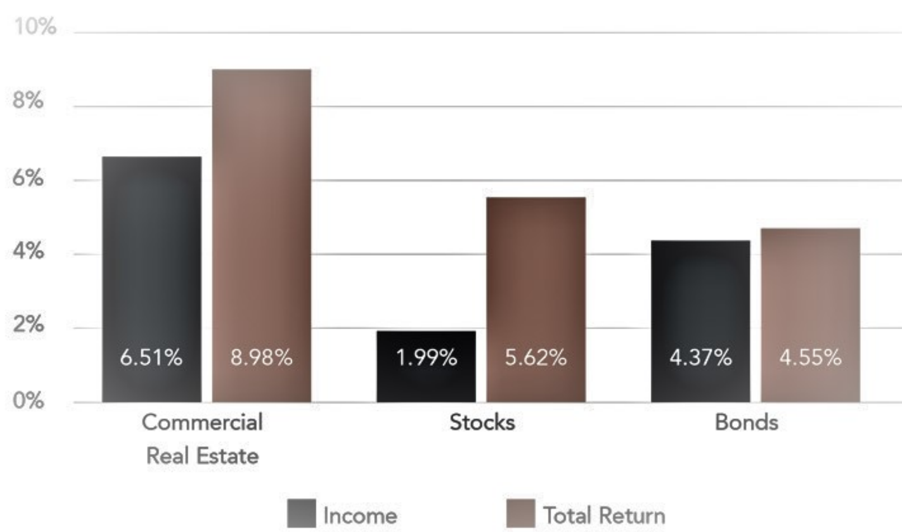


*Figure 1* See Data Sources and Disclaimer below*

All that is required is status as an Accredited Investor and a minimum investment amount, which can be as low as $50,000. Such an investment may buy a partial ownership interest in a large-scale, professionally managed property somewhere in the USA. In addition to adding real estate assets to your portfolio, without needing millions of dollars and a commercial mortgage, a DST investment may provide an Accredited Investor with several advantages, including:

***Lifelong Tax Benefits***. With a DST investment, you can enjoy the same tax benefits you would get from direct real property ownership, including mortgage interest deduction. Many DSTs carry moderate leverage – generally 50%-60% loan-to-value financing – which can provide a source of income tax shelters as investors may claim their proportionate share of mortgage interest deductions.

***Strategic Exit Options***. Like traditional assets, like stocks, once a DST asset is sold, the investors can take their proceeds and pay taxes. However, a more strategically attractive common-sense approach, is available with a DST that allows the investor to defer all capital gains tax once again by exchanging into another DST or yet still another real estate property. This can continue until death, providing a clear long-term advantage for the DST investor. A combination of these options is also possible.

***Liability Protection***. DSTs have bankruptcy protection; your personal assets are not impacted if the DST should go into bankruptcy. The most you stand to lose is your specific investment, not your other assets.

***Cleaner Personal Balance Sheet.*** Because DSTs feature non-recourse debt the investor does not need to go through any loan qualification process or sign personally for any debt, but you can still include your proportionate share of debt in your investment basis. This potentially allows you to receive the benefits of depreciation allowances on a basis greater than your invested equity.

***Monthly income and capital appreciation potential***. Although not guaranteed, a goal of most DST investments is to make monthly distributions to its investors. Due to its passive and recurring nature, some investors affectionately refer to this as "mailbox money", plus with the ability to keep up with inflation, combined with the use of leverage, DSTs offer the potential for capital appreciation too.

**Reducing Volatility**

Accredited Investors are already aware that diversification in a portfolio is crucial, about what about correlation?

When we talk about the volatility of a stock, for example, we are talking about the level of risk. And that risk is quantified via a statistical measurement called standard deviation. This formula calculates the variability of return for an investment over time. The lower the standard deviation in the performance of that stock, the lower the risk.

Given this, simple logic dictates that when you are evaluating an addition to your investment mix, you should look at investments that individually show a low standard deviation.

This is the concept of correlated vs. non-correlated assets and has to do with the *total* mix of investment types in your portfolio. Having assets are stocks or bonds is good but having assets that have a lower correlation to each other is more desirable.

Because when there is a broad shift in the market due to a macroeconomic impact, stocks and bonds that felt like a safe bet could all take the same plunge, leaving the overall value of your portfolio in the doghouse. This is because your assets are what we would call "correlated," meaning that their value moves in tandem.

In other words, when the market is up, you are riding high. But you are in for a rollercoaster ride every time there's motion in the market.

**Strategic Solution and Diversification Strategy**

If part of a portfolio includes stocks and bonds, which we now know are all somewhat correlated, the investor needs to add a different class of asset; in this example, a commercial real estate investment, structured like a DST, Delaware Statutory Trust.

DST investments are "prepackaged" real estate offerings. Due diligence was completed by a Sponsor, usually the acquisition closed, management and mortgage are all in-place. DST offerings are essentially ready for investment capital.

**New Risks to Consider for Traditional Asset Investors**

However, with any investment, you need to be aware of some downside risks related to real estate, such as lack of liquidity. Those who have only invested in traditional assets like stocks or bonds, may not be familiar with already. These are outlined in detail in each DST Sponsors offering memorandum under a Risk section, relative that property.

An investment in a DST is like an investment in a real estate property. Real estate property is considered an illiquid asset. Even though the owner may be receiving cash flow, you will not have access to the principal until the asset is sold, and the DST program concludes, which could involve a span of 6-11 years.

As a passive investor in a DST, you do not have a formal vote regarding property operations or when it will be sold. Furthermore, you do not have a say in any capital improvements, who may lease the property or anything else concerning the property. Investment in a DST requires a great deal of confidence in the sponsor, which is the entity heading up the trust. So, sponsor experience is an important consideration.

**Conflicts of Interests**

Choosing how you invest in a DST is also an important consideration. Are you paying a commission? What is the best DST for you to invest now?

Is there a potential conflict that the person "selling' the DST is just selling a particular product, perhaps because they are the product distributor or Sponsor of that same product?

**Is It Time to Talk?**

*For more information on DST Investment strategies and additional information contact us at 800.378.0515 or by email* *support@dst.investments*

DST News



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July 13, 2020