

Heatley-Moist's
D/FW Land Advisory

We're Changing The Way Land Investments Are Made

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*"Wouldn't it be nice to find
a safer bet than a triple-A muni bond
and still beat S&P's 13%?"*

Ten Venturers Ante Up \$1.2 Million Cash For Deal They Rate "Armored Car" Safe

Three weeks ago a small group of our venturers purchased a \$1.5 million first lien note on a single family development performing at 14.8- 21.8% yields. Since some of these venturers are bond market players as well, we asked how they would compare the safety of this investment to a triple-A muni bond. The answers may give some venturers reason to question if bonds - or stocks, for that matter - are still the best play for the money.

From:
Our New Just-Now-Moved-Into Location
Las Colinas, Texas
Monday, 10:52 am
July 22, 1996

Dear Venturer and Subscriber:

Some of my venturers still don't get it. What is it with this company's seemingly sudden infatuation with real estate notes?

The answer to that in a minute, but first, look at the address on the header of this letter. The city's the same. Even the suite number. Everything else, however, has changed. We're busy unpacking, so in the meantime, here are two phone numbers to keep handy while we're getting the bugs worked out of our new phone system:

Mike Heatley... Metro 214-213-5252
Bill Moist..... Metro 214-762-1252

Now, back to the question. Some of our venturers are (understandably) curious why this company would plow \$1.2 million into a real estate note. That's quite a sea change for a company whose roots have been in land speculation for 22 years, and whose venturers only 36 months ago were collectively making \$4.1 million in annual interest payments on notes themselves, isn't it?

Arguably, we should claim some responsibility for such a shift. For nearly a year now, both by phone and in this advisory, I've been crusading for the merits of getting interest rather than paying it. Heck, by now I'm feeling practically a poster child for a national campaign against debt. But when it gets down to separating wheat from chaff, the real reason we're buying notes and will

continue doing so is...

It's What Our Venturers Want To Buy!!

Look: Many of our venturers happen to be at the age where "spec"-ing in land makes as much sense as betting the family fortune on the outcome of the next election. Some still are "sideliners" because they've used up all of the money they're willing to allocate for investments of this risk profile. Generally speaking, that's roughly 10% of their total investment dollars.

So, what have we to offer them for the other 90%?

Nothing.

At least not until RiverBend Estates came along, that is.

But let's get to what really drives this bus. Frankly, for me, serving up a strict diet of spec land deals has been somewhat like a salmon going upstream: it dies at the end of the journey anyway, which is the sort of experience I'd just as soon not continue duplicating. Truth is, I'm as lazy a salesman as any and, it's a heck of a lot easier selling customers something they want than something they don't.

Und, Mein Herr, what they want... is safety.

To get it, we're discovering that many turn to debt instruments, namely bonds. So all we're doing is, we're serving up an upgraded version of what our venturers have been doing all along anyway. Which gets us to the main point of this letter...

Do You Have To Settle For Low Returns If You're Not Willing To Take Big Risks?

I say not.

And, judging from the statements of the ten venturers who bellied up to the bar for the RiverBend Estates note, I must be a far cry from being the only one promoting this point of view. In fact, when asked what he liked most about the RiverBend note investment, the largest participant in this venture said...

"It's Like Getting More-Than-A-Bond Return For Less-Than-A-Bond Risk"

Whooiee! Ain't that one a honker? So what's Heatley lacing these venturers' veggies with to extract such quotes?

OK, let's get serious for a moment. Just what sort of logic is there to support such babble? This sort: It's all reward versus risk. First, look at the reward these venturers can reasonably expect from RiverBend Estates. The minimum payment required to service this note gives these venturers an internal rate of return (IRR) of 14.8%. However, as lots sell, 50% of the gross proceeds goes right into the pockets of these venturers. And, at the rate those lots have been moving, that translates into a 21.8% return.

So let's get this straight. That's 14.8% minimum.

And a reasonable shot at 21.8%.

Not too shoddy for an upside, eh?

Either way, compared to a "no risk" (some say "no fun") triple-A muni bond at 4%, both returns are grand slams. Besides, is 4% how America's rich get richer? Get real. In my book, that's a "go nowhere" return. But don't settle for my slant. Check this out from the second largest participant in RiverBend:

**"If You're In A 38% Percent Tax Bracket
You Almost Have To Make 7%-8% In Triple-A Munies To Come Out
And There Aren't Any Of Those Around"**

Couldna put it better myself.

Now, on to risk, the number one concern of any investor. Suppose you could get a real estate investment that's just as safe -- maybe even more safe -- than a muni bond. Fantasy land, huh?

Nope. Not according to these venturers, it isn't.

Hear this: Far and away, the one factor -- more than any other -- attracting this group to RiverBend... was security. Water it all down, Buckwheat, and it's the value of the collateral that makes RiverBend a safe bet.

How safe? This safe: a sound rule of thumb in buying real estate notes is "two-to-one". That means you want the collateral backing the note to be worth at least twice the number of dollars you're having to invest. But you know what? After almost five months of exhaustive due diligence, we discovered RiverBend wasn't going to fit this handy dandy industry standard profile.

Couldn't even get close, in fact.

Without putting too fine a point on it, the value of the remaining lots (based on prices they are currently selling at) plus an additional 26 acres of land yet to be platted totaled a hair south of \$11 million, which means the collateral-to-investment ratio for RiverBend was in excess of...

Ten-To-One!

Ain't that the berries?

What's that you say? You don't put no stock in appraisals? You say damn near everybody cooks the books anyway?

Alright, then get this: By conservative estimate, roughly \$8 million was spent in improvements (streets, utilities, levies, waterways, etc.) before this project succumbed to RTC quicksand several years back. Since then, however, the new owner revitalized the project shelling out just north of \$3 million for even more improvements, bringing the grand tally to \$11 million cash spent on this one project alone. Which led one RiverBend venturer to ponder...

**"Why Would He Walk \$11 Million
For The \$1 Million He Owes?"**

Beats me. I think he's really got something there. In fact, I'd have to say this is the closest to a "can't lose" position I've ever seen and, in 22 years

I've seen a lot. One thing for sure, though. Should it come to pass we ever do get lucky enough to get such a project back in foreclosure, I bet I have ten venturers so happy, you won't be able to get the grin off their faces with a sand blaster.

But hey, that doesn't really quite answer how this is safer than a muni bond, does it? That's easy. Ask anybody who's been around the block in bond markets, and it won't be long before you discover this sad-but-oh-so-true fact: If a bond goes south on you, you can easily lose 30-40% of your principal.

Sometimes all of your principal.

And overnight.

It happens more often than you think.

Especially if you're not practically sitting on top of the "sell button" when things first begin to unravel. Even muni bonds (widely believed "Fort Knox" safe) are subject to payment defaults. However, I will give you this in favor of owning bonds: there is less you have to think about compared to a real estate note. For one, at least you'll never have to worry about getting the collateral back because, hey!...

**There Isn't Any Collateral
To Get Back!!**

Now, ladies and gentlemen, let's string all this together. If you want to...

- make 14.8% instead of 4%
- put yourself in a "can't lose" position
- comfortably beat S&P's 13%
- eliminate the worries of an all too often chaotic stock market

... get to the phone right this very minute, dial the number below, and get yourself registered for our next note offering. Leave your name, current mailing address and phone number followed by the words "I Wanna Play Safe". Here's the number to call:

Metro 214-913-0485

G'wan. Give it a shot. Strike a blow against "go nowhere" returns.

Sincerely,



Mike Heatley
"Safety First" Personified

P.S. This last, I pray, you don't take lightly: If you are heavy in stocks, if you have dividend investments not doing well, if you've been burned in corporate bonds, if you've been treading water with munies, if you got carried away with mutual fund mania... it's high time you considered taking serious "no B.S." steps toward eliminating downsides and getting quickly back to safe ground. Every day you delay is a day you could be losing money unnecessarily. Pick up the receiver. Punch the number. Get on the list.

One day soon you may look back on it as the smartest move you ever made.