

Mackey Sales Team

PRESENTS:

THE CALIFORNIA INVESTOR SYSTEM

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SECTION I: PREFACE

Know your: Who, Why, What, How, and When

WHO

This system is created for those of you who intend to be successful. It is for those who are open to new strategies, and those who embrace opportunities and have the desire to preserve & grow their wealth.

WHY

I am writing this report because I believe in sharing knowledge. I believe in the concept that the more people one helps the more successful one becomes. Because of that I know my level of success is directly proportional to that of my clients.

The great success of our team during the last five years has been the result of developing, marketing and fine tuning a real estate investment and resale business in the San Diego area (top 7% in nation). During that time our clients have accumulated millions of dollars of wealth through real estate ownership.

I began seeing fundamental changes in the market late in 2004. That prompted me to start researching data, attending seminars and interviewing agents & investors with 10+ years of market experience. My goal was to gain knowledge about what may be down the road and what to do about it.

WHAT

It is a unique system of thorough and logical data analysis with an integrated plan of action. Through my research on the subject I have found out there are two categories of people out there with respect to market knowledge.

1. **The ones that don't know:** Through my conversations and interviews I estimate less than 20% of the real estate agents and even fewer number of investment advisors understand where the market is headed. Of those agents that see the changes and have that knowledge they may or may not share it with their clients since they probably don't have much to say to them other than 'hold on' or 'the market will rebound eventually'.

2. **The ones that know:** some university researchers, some Realtors with down-market experience and some local governments. Many professional investors know but they have no obligation to share. They are quietly selling and preparing to buy later after the market declines. The bottom line is that most of those that have this knowledge have no real incentive to put the word out because it goes against their interest or they simply do not know what to do about it.

HOW

I set this investor system up to first address the needs of removing assets from the California market and placing them in up and coming (emerging) and momentum markets. Later, as the market changes this will provide lots of opportunities for both direct (you buy) and indirect investing (you finance and get fixed return). I commit to providing you the information, resources and systems to make decisions that will help you realize your goals, solid financial future and personal dreams.

Because of overwhelming response we are currently limiting the number of people we are working with. We are selecting people based on a number of factors including recommendations from our past clients.

If you are want to take action **NOW**, go to the **Investor Action Kit** and complete both the **Business Relationship Agreement and Investor Contact Form**.

Follow this link: <http://filelibrary.myaasite.com/Content/18/18020/10234352.pdf>

WHEN

When someone tells me about a problem that looms ahead I prefer it that they have a few solutions in mind to remedy the situation or create an opportunity out of it. I therefore took the time to research the opportunities and create the solutions detailing exactly what to do before, during *and* after the market adjusts.

As of this writing, each passing day of inaction results in a loss of opportunity and profit. I invite you to take action now to allow opportunity and prosperity into your life.

To learn more and **start taking action NOW**, go to the **EXECUTIVE SUMMARY** section that follows.

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SECTION II: EXECUTIVE SUMMARY

Real estate moves in cycles, there are regional market patterns and appreciation is most affected by local/state economies, interest rates, job growth/loss and migration. History shows while local markets go up and down the United States has appreciated about 6-7% per year on average with some states going up 20%+ per year and even more locally. This means simply that some markets are going up and some are going down. The trick is to have the ability, vision, plan and decision-making ability to take benefit from this knowledge.

A decline is probable in California because we see many of the indicators present during the last downturns and for the first time we have the lowest interest rates at the top of the market.

(See: "Where We Are Heading" Sec II, Part 3).

Real estate is unquestionably **THE BEST** investment vehicle because of tax sheltering, depreciation allowances, loan pay-down, cash flow, and amplified appreciation because of leverage from loan to value ratio. Watch out! It is important to note that the 'leveraged appreciation' works both ways:

For Example: \$30,000 investment w/ 10% appreciation / depreciation in a 'regular' vs. 'leveraged' investment.

\$30,000 Investment (Stock, Bonds, etc.)	Vs.	\$30,000 in \$300,000 home
\$3,000 or 10% gain on money	↑ Going up	\$30,000 appreciation or a gain of 100%
- \$3,000 or loss of 10%	↓ Going down	\$30,000 depreciation or a loss of 100%

No one has to sell! The California market will 'be back' by 2009-2010 and will be 'Better Than Ever'. You can sit tight if you can afford to do so. If you do not want the hassle and don't mind the paper loss of 10-20+% on your investments, then stay. "High Risk" areas like Condominiums, Multi-Family Units, vacant land and investor heavy areas will depreciate the most as market softens and especially, as less informed investors bail out. We suggest you do not sell your primary residence unless you plan to move out of state in the next 5 years.

If you do sell before the market decline, cost of sale and re-investment would be offset in first year with equity loss stop and appreciation in a new market. That leaves 3+ years of appreciation and adjustment of prices in California so you can re-purchase in the area you sold (or better area) for 10-20% less and ride the 'next wave' to retirement!

(See: 'Stay Vs. Go' article) <http://filelibrary.myaasite.com/Content/18/18020/10229576.pdf>

WHAT TO DO NOW:

1. If you have the time, read this report and research the links provided. Confirm and form your conclusion.
2. If you agree with my conclusions or they support your knowledge or feelings then **ACT NOW**
3. If you have the ability, vision and decision making ability, then we have the plan.

GO TO INVESTOR ACTION KIT:

<http://filelibrary.myaasite.com/Content/18/18020/10234352.pdf>

NOTE: I completed this research, investor strategy and business plan with the intention to place myself, my family, friends, and clients in a position of knowledge about the California Real Estate Market and how to profit from that knowledge. I welcome your participation in the many opportunities within our Investor System over the next 5-10 years and look forward to our business relationship.

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SECTION III: INVESTOR SYSTEM

The Investor System will be discussed as follows:

1. Where We Are and Where We Have Been
2. Why We Are Here and Why We Are Investing
3. Where We Are Heading
4. Decide If Adjustments Are Necessary
5. The Bottom Line
6. What We Can Look Forward To
7. What To Do RIGHT NOW

PART 1: WHERE WE ARE and WHERE WE HAVE BEEN

First, we present an overview of where we have been.

Historical Appreciation in USA		
Year	Median Home Price	Affordability Index (%)
1967	20,000	n/a
1991	100,000	52
1996	119,000	56
2004	185,000	56
2005	191,360	n/a
1967 to 2007 =		180K in 40 years or about 4,500 per year
1991 to 1996 =		19,000 actual appreciation

Historical Appreciation in California		
Year	Median Home Price	Affordability Index (%)
1967	23,000	n/a
1989 – July	201,653	18
1991	200,660	25
1996	177,270	40
1997 – February	167,790	44
2004	487,000	23 to 19%
1989		Affordability index in May 18%
1989 – 1997		Hi to Low drop of \$33,863 = 20% or 2.5% per year
1991 – 1996		Year to Year Decline of 23,030 = 13%

Northern California 1992 to 1996

Down 8% overall

Increased in Value Santa Clara, San Mateo and Marin Counties
N.CA decline Delayed from southern California by 1-3 years and less dramatic
Biggest losers: Sacramento 22%, Oakland 16%, Contra Costa 13%, Napa 10%, SF 9%

Southern California 1989 to 1997 (Area depreciated between 10-25 % overall)

	1984	1989	1991	1995	1996	1997	2004
Los Angeles	121	214	218	179	172	176	446
Orange	130	241	229	209	213	227	627
Riverside	81	124	114	120	115	296	296
San Diego	104	181	187	171	174	185	551

Year to Year HI to Low (actual high to low will be higher)

Los Angeles	1989	214,831 to	1996	172,886	= 41,945	= 24.2 %
Orange	1990	242,358 to	1995	209,400	= 32,958	= 15 %
Riverside	1992	136,230 to	1997	114,340	= 21,890	= 19.1 %
San Diego	1991	187,510 to	1995	171,600	= 15,910	= 9.27 %

Data Source: [http://www.car.org/library/media/papers/pdf/2005%20AHDS%20\(PDF\).pdf](http://www.car.org/library/media/papers/pdf/2005%20AHDS%20(PDF).pdf)

Hottest markets outside of California and Nevada were along the East coast:

Port St. Lucie, FL (28.15 percent), Palm Bay-Melbourne, FL (28.06 percent), Washington DC (including VA, MD and West Virginia, up 24.01 percent), Punta Gorda, FL (23.84 percent) and Atlantic City, NJ (23.65 percent).

Hottest year-to-year basis, home values rose by:

35.78 percent in Nevada, Hawaii (28.29 percent), California (27.18 percent), Washington DC (23.95 percent), Rhode Island (22.54 percent), and Maryland (22.32 percent).

The California Cycles: Up Numbers and Events

- **1996 to 2004** 9 Years 173% = 19.2% / year 178,160 – 486,550 = 308,390 = 34,265 / year
 - PITI to median price comparison \$ 1,665 in 1990 vs. \$ 1,670 in 2000 and \$ 2,812 in 2004
 - Artificially low interest rate – because US economy slow
 - Tight new home supply because of builder consolidation
 - Use of 'stated income' and interest only 'jumbo loans'
 - Novice investing and speculating last few years
- **1984 – 1989** 6 Years 71.6% = 11.9 %/year 114,260 – 196,120 = 81,860 = 13,643 / year
- **1974 – 1983** 10 Years 230% = 23.1 %/year 34,610 – 114,370 = 79,760 = 7,976 / year

Down Numbers and Events

1983 -1984	Down from June - 114,828 to May - 110,585 = \$ 4,243 = 3.8 %
1978- 1982	Interest rates rise 9.3% to 15.3% (highest since 1965 recorded data)
1980	17% affordability rate, unemployment 5.1%, 41% decrease in construction in two yrs
1880- 1985	Foreclosures up 981%, though prices stable because of + net migration into state
1982	Unemployment 5.1%
1989 –1997	Down Approximately 20% statewide
1988 –1990	Interest rates 9% to 10%
1989- 1992	Commercial construction down 45%
1989	18% affordability rate, 55% decrease in construction in two years
1990	Base closures
1992	Unemployment up to 9.1 %
1993-1996	Net migration loss due to base closures and construction slowdown

Down Numbers and Events (continued)	
1990 – 1996	Southern California Area Price 'Adjustment' – All down from April 1990 high
35%	Lancaster / Palmdale
24%	Los Angeles County
19%	Pasadena
15%	San Diego County (held best in So-Cal, down less than 15% on average)
\$242K October 1990 to \$211K October 1995 = \$31K/5 years = \$6,200 per year	
City of San Diego down only 10%	

Properties hit the worst:

Multi-Family units, Condominiums, any areas with high non-owner occupancy, luxury/high end, large square footage homes and vacant land.

PART 2: WHY WE ARE HERE and WHY WE ARE INVESTING

RE Investing 101: Appreciation, Cash Flow, Mortgage pay down, Depreciation, Tax write-off

Historical information

USA average appreciation is a little more than 6% per year since tracked.

That says that on a 200K home with 20% down your cash on cash return, even after a conservative 40% expenses, your return is = 18% (\$12K – 40% = \$7,200 or \$7,200/\$40,000). That 18% is just the cash on cash return after only one year without factoring in other deductions and benefits like principle reduction (a renter paying off your mortgage), tax savings (deductions and depreciation), borrowing against to buy more properties and tax deferred sale opportunities and cash flow. *Sounds good, right?*

Cash flow on a \$200,000 4-Plex with 20% down, 6.5% fixed, and \$2,000 per month in rent (even with a conservative 40% expenses) will net you around \$2,200 per year in cash!

Plus, the benefits of home ownership are quite considerable. Because the mortgage is being paid down each month, equity is being built. After 5-years, the \$300,000 mortgage would be reduced to \$279,000, adding \$21,000 to your net worth.

Home appreciation can add an even bigger chunk. If your home appreciates at a modest 5% per year, the value of a \$300,000 home would increase to \$383,000 after 5-years. Subtract the remaining mortgage of \$279,000 and you have a whopping \$104,000 of additional net worth! Even if you had to sell that property after five years (at 10% cost of sale) you would still be ahead \$ 65,000 dollars.

Tax Savings by Depreciation

Uncle Sam still lets investors depreciate an investment properties 'building value' over 27.5 years and deduct that amount from taxable income.

Tax Savings

When it is time to switch markets after a good run Uncle Sam allows you to take that money you have made and tax free exchange it into another property (IRS 1031 exchange) to let it catch another wave without so much as asking you to paddle out past the break... What a guy! After that you can do it again... all you need to do is purchase the same amount of assets and debts on both sides. You can also borrow against any property you own to buy more properties as they appreciate and use that money tax free!

Stock Vs. Real Estate Example

Home price changes are far less volatile than stock values, but individual returns depend on market conditions in local areas. *So, you have to know where to go.* Between 1983 and 2003, the average deviation in annual value from national price trends in the top 100 metropolitan areas was only 4.7%. *This says it's a solid investment.* By contrast, stock values can rise and fall rapidly – even over the course of a single day. *This may lead to therapy and pre-mature grey hair!*

A recent study showed home equity accounted for 19 percent of household wealth in the United States, slightly higher than the combination of stocks and mutual funds. Homeownership is more widespread than stock ownership and home equity exceeded the value of stock owned by \$2.6 trillion. In other words, homeowners are real estate investors and most have done very well, some without even knowing how they did it!

Source: Joint Center for Housing Studies of Harvard University and Macroeconomic Advisers, LCC, and commissioned by the NAR®

The question is why do individuals not own investment properties?

1. Don't realize the value
2. Don't have the resources
3. They just don't know how

PART 3: WHERE WE ARE HEADING

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Market Update

USA is poised for growth over next 7-10 years. Economic indicators look good. This may cause a rise in inflation and a subsequent rise in interest rates. Most of the US markets would not be greatly affected by rates of sub 10%.

Historical and Expected Appreciation in USA		
Year	Median Home Price	Affordability Index (%)
1967	20,000	n/a
1991	100,000	52
1996	119,000	56
2004	185,000	56
2005	191,360	n/a
2007 estimate	200,000	n/a
2010 estimate	232,818	n/a
1967 – 2007 =	180K in 40 years or about 4,500 per year	
1991 – 1996 =	19,000 actual appreciation	
2005 – 2010 =	Estimate 41,458 / 22% increase or \$ 8,291 / 4.3% / year	

Historical + Projected Depreciation in California

Year	Median Home Price	Affordability Index (&)
1967	23,000	n/a
1989 – July	201,653	18
1991	200,660	25
1996	177,270	40
1997 – Feb	167,790	44
2004	450,000	23 to 19%
2006 estimate	500,000	30
2010 estimate	400,000	45
1989	Affordability index May 18%	
1989 – 1997	Hi – Low Decline of 33,863 = 20% or 2.5% per year	
1991 – 1996	Year to Year Decline of 23,030 = 13%	
2006 - 2010	Projected decline of \$ 100,000 = 25%	

Northern California 1992 to 1996

Down 8% overall

Increased in value	Santa Clara, San Mateo and Marin Counties
N. CA Decline	Delayed from Southern California by 1-3 years and less dramatic
Biggest losers:	Sacramento 22%, Oakland 16%, Contra Costa 13%, Napa 10%, SF 9%
Sit and Watch:	Northern California will lag southern California by 1-3 years

Southern California 1989 to 1997 (Area depreciated between 10-25 % overall)

	1984	1989	1991	1995	1996	1997	2004
Los Angeles	121	214	218	179	172	176	446
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San Diego	1991	187,510 to	1995	171,600	=	15,910	=	9.27 %

60 / 30 / 10 % Prediction:**60% Chance of market going down 10% or more because of following factors:**

- History says so It did it every 6-10 years in recent past 1967, 1983 & 1990
- Interest rates up – because of strong national economy rates will be raised to curb inflation
- Low affordability 18% 3/2005, Every time affordability has hit 18% in 1980, 1989 there has been a down market... affordability rate estimated to be 17% by mid 2005
- Interest only loans 50% '03 60% '04, 80% in jumbos & 75 % of were re-fi's + cash out
- Foreclosures all time low, when they pick up those foreclosed individuals will be out of market for 5+ years, less buyers.
- Jobs a 1% increase in unemployment = 170,00, construction in CA employs 828,00 jobs, a 10-20 % decrease in construction would be a major hit to unemployment, migration and more homes going on market
- CA to US price comparison we are currently 263% higher than national average, last peak 211 in 1989 (just before last 'adjustment')
- California debt \$ 25.2 Billion –as of 5/05 and growing 11million per day will grow w/ foreclosures and tax non-payment
- Immigration tougher than ever to get in country, tougher to renew visas, has always + except in 93-96, immigrant purchase big part of this last boom,
- Move-ups with 'equity-up' purchases slowing, high end markets signs of slowing, everyone taking their seats before music stops
- Novice investors will be bailing like 'rats off a sinking ship' when appreciation stops, inventory goes up and prices start to drop.

30%- Chance remain level +/- 5 % if: Interest rates stay low, US Economy slow, population stable, businesses quit leaving CA.

10% - Chance of prices going up if: Interest rates low, Populations rise, CA cuts debt.

Note: While it is a remote possibility, it is worthy of note that all of these factors currently present could lend themselves to developing a 'Perfect Storm' of 'correction' because we have never before seen all of the dynamics noted above in California simultaneously triggered for reaction at one time.

THE GOOD – For San Diego:

Tougher permitting laws, insurance restrictions and cost/availability of land has limited the amount of new construction so builder unsold inventory will not be as much of a factor as in past down markets. There will always be 'established areas' minimally affected by swings in CA and local markets.

Last down turn San Diego did better than most of Southern California:

- 15% San Diego County (held best in So-Cal, down less than 15% on average)
 - 242K October 1990 to 211K October 1995 = 31K/5 years = \$ 6,200 per year
 - City of San Diego down only 10%

THE BAD:

Interest Rates

The Federal Reserve sets the interest rates to control inflation in the United States. US economy will do well next few years... what that is going to do is cause the Federal Reserve to increase the interest rate to keep inflation down. Of course each state does not get their own interest rate, and this is an important point because states that are doing 'better' than the US as a whole will benefit from a 'lower than needed' interest rate just like California has.

CA for the last 4-5 years has been really cooking economically... having a very low interest rate when we really did not need it to sustain or push the economy... so what it has done is really push the housing prices up so that CA is now poised for some real reality checks coming up here...

Investing has become very popular

Over the past few years, with first time investors 'earning' 30-40 % per year appreciation in some markets, word of this of course attracted many more investors and speculators buying then re-financing cash out to buy more properties and pay for the negative cash flow on property. This means only that there are many out there with no intention of staying in the long haul and with the slightest hint of depreciation they will dump their inventory.

First time buyers, move up's and their loans

Those who did buy or move up most of the time used an adjustable mortgage. 50% in 2003, 60% in 2004 and 80% of the time in jumbo loans in 2004. It is estimated the first wave of these loans that will effect the market will come due in 2006/2007. Before that though prices will become flat and as interest rates rise. Anyone with a home equity line of credit will quickly see their payments go up since they are not locked in place.

The California State Deficit http://www.treasurer.ca.gov/news/releases/2005/060105_debtclock.pdf

Currently: \$ 25.2 Billion, growing 11 Million per day.

It includes \$15.9 billion in deficit borrowing in the financial markets, \$3.8 billion borrowed from local communities and schools, and \$5.1 billion borrowed from transportation and other special funds, as well as accrued interest on the debt.

As high as it is, it will become higher with any economic downturn because tax revenues from business will go down, real estate tax revenue will decrease and spending will be slow to change. Real estate taxes have been a huge source of revenue which have helped over the past 5 years though will decrease if median home prices fall and especially if the first bill people in foreclosure don't pay are their taxes. It is thought real estate tax loopholes are the first place Sacramento will look to make up budget short falls.

Migration

One of the most important local factors in house prices is migration. If you live in or near a community that is growing as more people move in each year; that increases the bidders competing for your home. Prices are far more likely to rise in an environment of net in-migration. On the other hand, if your community is shrinking, both the number buyers and amount of capital available is reduced.

Some labor and construction issues to look at are military base closures / re-alignment, the planned end of many 'major construction projects' (school modernization and prison construction). As surrounding states economies pick up that will draw workers from California which will result in decrease in housing demand for residential and commercial construction job as well as their homes showing up on the market.

Net negative-migration loses will also be influenced because foreign immigration will decrease because of recent and future immigration restrictions on US Visas like the H1B visas (high paid workers) and tougher renewal restrictions for current legal workers. There has been about a 50% reduction in these visas over the past few years.

Negative net migration is usually seen in last years of down market cycle. Currently State of California does not forecast any decline in population.

And - THE UGLY:

The combination of increasing interest rates, historically low 'savings rate', historically high housing prices, historically high use of ARM's, stated income loans and cash out refinances to max value demonstrate we're at a financial critical point.

Never before have we had the combination of low affordability rate, increasing interest rates, negative net migration, future job losses, and an 'overdue' depreciating market.

No matter where you live in California all of these factors clearly lend to the realization of the end to the up market, at a minimum a leveling off and more probably the eventual beginning of a down market.

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Historically California 'adjusted' on average between 18-20%, some areas losing more and some less. Most all lost some. (See Section II, Part 1: 'Where We Are and Where We Have Been' to review the historical trends during a California down market).

So now the question is: What do I do now? What are my options?

PART 4: DECIDE IF ADJUSTMENTS ARE NECESSARY: STAY Vs. GO

(See: 'Stay Vs. Go' article for examples)

<http://filelibrary.myaasite.com/Content/18/18020/10229576.pdf>

Let's look at a few scenarios and how you may fit in:

Advice for the current home owner

If you like the area you're in and you plan to be there for 7-10 years then pay your mortgage down to a minimum of 70-80% of current market value, refinance to a 30 year loan (if you've not already), get rid of any 2nd's and sit tight. If you own a condo in an area you feel there are a lot of rentals (investment properties) consider upgrading to a single family detached home near in an area you want to live for the next 7-10 years.

For the 'un-leveraged', comfortable investor

1. If you owe less than 50% on property and are enjoying cash flow
2. If you're comfortable with not growing your RE assets over the next 4-6 years
3. If you're ok with losing 10-30 % equity in your properties + opportunity costs
4. If you don't own one of the 'Properties hit the worst'

Then you're ok with what market will do and have earned right to sit tight and wait it out.

Otherwise continue on

Remember the 'properties hit the worst' list: Multi-family units, Condominiums, any areas with high non-owner occupancy, vacant land, luxury/high end, and anything in marginal neighborhoods.

Where to go, with what and how long?

CA's going to be down until around 2010 so where to go?

- CA's 'Switch-Markets' = CA down they are up
 - AZ, NV, UT, OR, TX
- Growth areas: NY & NJ on same cycle as CA only they go to FL, SC, NC, GA

How much where?

Depends on what account says and how much risk you want to take...

We can arrange for properties to be presented with low, medium and high risk reward ratios.

See specific recommendations in section # 7

Cost vs. benefit analysis: Decide to move assets (harvest and re-plant) or stay?

Costs: Sale can be calculated at 10% of sale price to cover broker fees, closing costs, exchange costs. You may want to factor in some more for administration, and tax consultation costs.

Benefits: If you buy into a property with some margin (HUD, Motivated new construction, and good deal) you could automatically have some equity built up even before tenant moves in!

Specific examples: All numbers run with 40% expenses, 6.5% fixed loan and 4% appreciation to be conservative
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Available as of May 2005**Multi-Family Unit**

445 Natalen St San Antonio, TX 78209

- 4 Units all 1/1's Built 1922 3,000 total sf
- Price: 180,000 Rents: \$ 2,000/month
- 20% 36K down, 40% expenses = \$ 3,477 cash per year, 7,200 appreciation (@ 4%/year), 1,609 principle reduction

Total return: 11,591 / year 32.2 % return on equity per year

- 5 Year hold = \$ 57,955 $57,955 - 36,000 = 21,955 / 36,000 = 60\%$ - Cost of sale 10% = $3,955/36K = 11\%$

Same unit ran at 10% 18K down = 10,777/yr =

- 5 year hold = 53,885 $53,885 - 18,000 = 35,885 / 18,000 = 199\%$ - Cost of sale 10% = $17,885/18K = 99.4\%$

HUD homes

- Purchased in early 2005

10315 Little Valley Rd, Fort Worth, TX, 76108

3 BR / 2 BA 1,800 sf

Price 100,000 Rent: \$ 1,100 per month.

Down Payment	Cash Flow	Appreciation	Loan Reduction	Return on Equity	5yr. Return	Cost of Sale
10% or \$10K	\$1852	\$4000	\$894	\$6576 or 32.88%	32880 or 228%	\$22K or 22%

New construction

Buy from builders with \$2,000 deposit and let property appreciate while being built...

Ghain Homes, w/ warranty high 90's to 150K for excellent rental property in very good neighborhoods. Many other new construction opportunities

Why we like Texas?

- Tax laws may soon change Real Estate tax from 3% to much less
- Non-disclosure state regarding property sale statistics so actual appreciation is higher than recorded
- Owner friendly rental policies, solid rental market rates of \$1,000 on 100K home
- Lots of businesses headed that way. BRAC benefited most cities.
- Low average home price Vs. average income
- Many areas within '20 minute rule' of downtown metro areas being filled up
- Has best outlook for economic sustainability when interest rates do rise

Appreciation to cost ratio among best in nation:

Area		Appreciation	Average Home Price
Ocala	FL	27.0%	\$122,200
El Paso	TX	15.0%	\$104,800
South Bend/Mishawaka	IN	10.7%	\$91,100
Amarillo	TX	10.7%	\$102,600
Peoria	IL	9.1%	\$91,500
Austin/San Marcos	TX	2.5%	\$154,100
Dallas	TX	5.4%	\$140,000

NOTE: This is appreciation to price of what has been. Dallas, Austin and San Antonio are improving markets.

Articles Regarding Market Facts

- Telling Article, note it was written in 2004:
<http://www.sdreader.com/php/cityshow.php?id=C072204>
- High End Market Stats:
<http://www.firstrepublic.com/lend/residential/prestigeindex/sandiego.html>

PART 5: THE BOTTOM LINE

“Achetez aux canons, vendez aux clarions” – “Buy on the cannons, sell on the trumpets”

The old saying, attributed to the Rothschild Family - Mayer Amschel Bauer, that investors should buy on the sound of cannon fire and sell on the sound of trumpets, is a statement about risk and that investors undervalue stocks in times of danger and overvalue them in the celebration that follows victory.

For those more familiar with stocks, investors that place a **‘STOP SELL’** order on an investment do so because they are not sure where the market is going and want a way to minimize their losses when the market will not sustain the value they personally feel the stock is worth.

“The bigger the party, the bigger the hangover.”

Richard Russell states in his Dow Theory Letters... Rule 2: DON'T LOSE MONEY: This may sound naive, but believe me it isn't. If you want to be wealthy, you must not lose money, or I should say must not lose BIG money. Absurd rule or silly rule? Maybe, but MOST PEOPLE LOSE MONEY in disastrous investments, gambling, rotten business deals, greed, poor timing. Yes, after almost five decades of investing and talking to investors, I can tell you that most people definitely DO lose money, lose big time - in the stock market, in options and futures, in real estate, in bad loans, in mindless gambling, and in their own business.

- <http://www.dowtheoryletters.com/dtlol.nsf>

Charles Dow was a brilliant market observer and theorist. In 1889 Dow began publishing The Wall Street Journal.

Each Market (Bull and Bear) Has Three Psychological Phases:

Bull Market

- Phase 1 - Disbelief
- Phase 2 - Rising Expectations
- Phase 3 - Mindless Euphoria

Bear Market

- Phase 1 - Disbelief
- Phase 2 - Growing Fear
- Phase 3 - Despair

Change is tough; therefore, you must do the following to succeed

- A. Recognition of current situation is first step.
- B. Courage to make decision is required to advance.
- C. Have an exit, entry and re-entry strategy in place before you pull trigger.

Finally, the trick is the ability to **recognize the sound** of cannons and trumpets, **watch for phases** of euphoria, disbelief, fear and despair and **when you recognize** the sounds and see the phases **do something about it.**

Be confident that this is ‘The Biggest no-brainer in the history of no-brainers’

PART 6: WHAT WE CAN LOOK FORWARD TO

Adversity creates opportunities!

Now:

- Get assets out of areas that will depreciate
- Invest in California 'Switch Markets' (opposite cycle of CA)
- Use our 'pipeline to richer pastures'

Soon:

- Participate in wholesale deals
- Lending hard money
- Partner into short term deals

Later:

- Buy foreclosures to sell
- Eventually buy foreclosures to keep

Eventually:

- Return assets to California and buy back properties you sold for 10-20+ % less.
- Use money gained from appreciation to buy more properties.
- Ride the next wave and then retire.

California is California...

- No matter what you do you can't keep a good thing / place down for long.
- California will begin come-back probably around 2009 to 2011
- You'll know turn-around is near when groaning become the loudest.

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Return when the California 'Bear' once again becomes 'Bullish' and what to do until then...

PART 7: WHAT TO DO RIGHT NOW

A: PLAN OF ACTION (See also: Investor Action Kit)

If you're are reading this and agreeing this makes sense then this is your Plan of Action (POA):

1. **Review and research your investment goals & plans**, compare where you are to where you want to be then decide on a course of action. If you see what we offer as a fit to that plan then continue on and read the FAQ page.
2. Go to the **[Investor Action Kit](#)** and go through checklist.
3. Print, complete and fax **Business Relationship Agreement** to **619-374-7478**
4. Complete **Investor Contact Form** and furnish 3 possible times to have a 25 minute phone conversation.
 - **Investor Action Kit**
<http://filelibrary.myasite.com/Content/18/18020/10234352.pdf>
5. **Gather all your real estate information** (addresses, leases, loan amounts, taxes paid, partner agreements, anything else relevant) and send (prefer e-mail, then fax, then mail) to us so we can prepare CMA's and net sheets for all your properties and send to you before our call.

6. **Contact your accountant and tell them plan is to sell and 1031 exchange properties** from CA to take to AZ, NM, TX, UT or AR for 4-5 years while receiving 30+ % return on cash per year. Check for specific tax implications to your individual situation. There are not many implications a 10-20 percent drop in value here vs. a 30 + % return on equity cannot overcome though.
7. **Read over carefully the information we send to you** so you can be ready to make decision since time is of the essence. Have all decision makers present during the 25 minute call.
8. **Give notice to tenants early!** California Law states tenants residing over 1 year must be given a 60 day notice to vacate. Do it now if you're planning to sell. Give us your renters name, property address they reside, alternate address (if they have requested mail be sent there) and we will provide you with CAR form to deliver or mail to them. Because selling sooner will help increase your sale price and decrease your purchase price we will help you negotiate with renter to agree to vacate prior to 60 days or have them purchase the property if they are interested and can qualify.
9. **We look forward to our meeting (phone or in person)** and we encourage you to research the market, be prepared for our call by having all documents, contracts and information out and ready.

During our meeting

We generate a specific plan to address your specific property, financial, legal, tax and personal needs. After you commit to the process we provide you with details of our 'pipeline' to appreciating markets, keep you updated by phone and e-mail and provide property examples for you to consider while we work to get your 'down leg' properties into escrow so we can start identifying actual replacement properties.

Distribution of investment examples:

Emerging Markets 70%

- Stable and less chance of peaking before ready to go back to CA
- Can split up between 1-3 states for diversification

Momentum Markets 30%

- More appreciation but may peak and require sale before ready to head back to CA
- May time right to pick up second wave of foreclosures in 2009

Other options

- Send money to a TIC (Tenant In Common) ownership, get 6-7 % on your cash per year with no hassles or worries and 1031 back to CA when market is ready.

NOTE TO OUR INVESTMENT CLIENTS:

We've spent a great deal of effort to establish a solid path for investing success over the next 5-10 years and we are excited to share it with clients who appreciate the benefits of having such solid relationships established.

We also pride ourselves on our customer service and versatility so if you see an area you think needs more attention or are privy to a market you think we should check out we're all over it! We encourage such dialogue and will give you feedback on how we think things are going as we progress.

Forward to us the names of anyone else you think may benefit from services we are providing and we'll take very good care of them and pay you a referral fee or discount your transaction as our thanks for your support.

B: TAKE ACTION NOW!

WE ARE READY TO HELP YOU MAKE THE MOST OF YOUR INVESTMENT

If you have decided to sell your California investment property complete these steps right away:

- 1. Give notice to tenants right now.**
California Law states tenants residing over 1 year must be given a 60 day notice to vacate. Because selling sooner will help increase your sale price and decrease your purchase price we will help you negotiate with renter to agree to vacate prior to 60 days or have them purchase the property if they are interested and can qualify. Give us your renters name, property address they reside, alternate address (if they have requested mail be sent there) and we will provide you with California Association of Realtors form to deliver or mail to them.
- 2. Complete contact entry form.** Include your full legal names (the ones on deed and tax record), properties you consider selling, loan amounts/interest rates on each property, current rent, expenses, and taxes paid on property for year so we can provide you with a 'net sheet' showing approximately what you will clear from sale.
- 3. Fax, mail or e-mail back completed contact entry form to:**
Fax: 619-374-7478
Mail: Mackey Sales Team
Prudential California Realty
12544 High Bluff Dr., Ste. 100
San Diego, CA 92130
Email: Chris@Californiainvestor.com
- 4. Investor Packet Delivery.** After we receive your Business Relationship Agreement, Contact Information Sheet and Investor Questionnaire we will complete and deliver to you a Market Analysis, Seller Net Sheet and our Sales Marketing Plan that is specific to your property.
- 5. At our meeting.** Because the bulk of the market research, specific property analysis and your personal investment needs will have already been shared, our meeting should take between 20-25 minutes. We look forward to our meeting together and the opportunity to work with you.

INVESTOR ACTION KIT:

<http://filelibrary.myaasite.com/Content/18/18020/10234352.pdf>

SECTION IV: SPECIFIC MARKETS AND AREAS – WHY AND HOW

PART 1: SPECIFIC MARKETS

The Goal

Invest into areas that will continue to appreciate until California is ready for 'Bull Market' re-entry:

Dow Theory: Bull Phase 1 – Disbelief

- Seller Exhaustion
- Informed investors "Accumulate" stocks
- Era of great values but public is skeptical

The key is to invest the majority of assets into 'solid markets' with forecast of 'modest appreciation'

Specific Markets

We have thoroughly researched the best markets to place investment dollars into over the next five years.

There will be some areas that have greater than 10-20% appreciation and we will focus attention on those markets also... but the cost of sale becomes a factor if higher appreciation market is halted and a forced sale becomes necessary prior to California being ready.

PART 2: EMERGING MARKETS

Emerging Markets:

Areas where indicators show bottom of decline and growth potential WWW.MACKEYSALESTEAM.COM 858-254-6741

- Texas – Best for bulk of investment dollars
- Arkansas (in some areas)
- New Mexico
- Utah
- Idaho

Why is Texas best place to start?

- Many businesses relocating to state
- Average income very high for value of homes
- Very solid infrastructure
- Excellent schooling system
- Economically diverse state
- Benefited from BRAC

ALSO

- Tax laws may soon change Real Estate tax from 3% to much less
- Non-disclosure state regarding property sale statistics so actual appreciation higher than recorded
- Owner friendly rental policies, solid rental market rates of \$ 1,000 on 100K home
- Lots of businesses headed that way. BRAC benefited most cities.
- Many areas within '20 minute rule' of downtown metro areas being filled up in DFW and Austin market
- Has best outlook for economic sustainability when interest rates do rise
- Market will not 'peak' like Arizona or Nevada may in less than 5 years, thus needing to sell before CA is ready

Appreciation to cost ratio among best in nation:

Area		Appreciation	Average Home Price
Ocala	FL	27.0%	\$122,200
El Paso	TX	15.0%	\$104,800
South Bend/Mishawaka	IN	10.7%	\$91,100
Amarillo	TX	10.7%	\$102,600
Peoria	IL	9.1%	\$91,500
Austin/San Marcos	TX	2.5%	\$154,100
Dallas	TX	5.4%	\$140,000

Dallas

- focus on areas north of downtown within 20 minute commute

Focus on: HUD, REO, Foreclosure

- can buy 10-30% below market because at peak of foreclosure market
- can buy these homes in excellent areas
- have team in place to inspect, bring up to 'rent ready'
- potential repair costs, HUD purchase issues
- New Construction Can purchase new construction in appreciating areas for 120-150K, rents 1,100

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McKinney: Wonderful historic areas with fantastic grown plans and very high median income

Plano: Established, corporate HQ of EDS, great area for HUD sales

Frisco: Lots of high tech coming, newer area developing, 2-3 years of buildable land,

Arlington: Influenced greatly by DFW airport, getting better, has seen double digit appreciation recently

- Home of Six Flags, Texas Stadium and DFW airport to north
- Bouncing back because DFW doing better, Cowboys building new stadium here
- Still some questionable areas, lots of apartments, car dealers and cheap motels
- Central to Dallas and Ft Worth, lots of freeway access

Ft. Worth: Feels more 'country', homes less expensive, income less that Dallas

- New construction in very low 100K's w/ rents of 1K+
- Downtown renovation potential, south downtown still scrappy
- 'Stockyards' tourist draw to north of DT, rough neighborhood surrounding
- Lakes to East and North east, some ok boats some no, east 'very country'
- Freeway interchanges too small, bad rush hour traffic
- Horse breeding popular

Austin: 'Silicon Ranch' Dell, IBM

- Hit in 2000 by tech stock drop, recovering now, what happens if San Jose down?
- New construction areas to go: East where new freeway being built, NE and eventually south.
- East of downtown scrappy but quickly improving
- Just South of downtown established, artist neighborhood, classy feel
- Great airport, poor road planning, slow to construct new and little upkeep

San Antonio: A Gem in the rough, 'Remember The Alamo'

- History, Military, Corporate, Universities, Medical
- Freeway planned out 20+ years, airport could be better
- Grown potential on 35 between SAT and AUS.
- Benefited by BRAC changes

Good Momentum Markets: Areas where people are already excited about buying real estate.

Arizona

- Excellent appreciation, not cheap, new home construction restrictive to investors

Oregon

- Excellent opportunities, has seen some appreciation already

Florida

- Will benefit from predicted Northeast decline

PART 3: HOW

How:

We have ready on ground in areas we suggest:

- Scouts looking for potential properties
- Agent / investors sending us properties that match our clients needs
- Representatives ready to brief clients on local matters, write offers, acquire property and manage tenants

At this time we are opening our 'pipeline' of affiliates in replacement markets only to those clients we currently have under contract to sell their California investment properties.

We may at a later time open this resource to others as our network grows, though for now, our goal is to assist in selling our clients' California investment properties and replacing them with properties in solid appreciation emerging and momentum markets.

SECTION V: APPENDIX

EXHIBIT 1: Latest California Numbers

Latest California Numbers

April 2005

Calif. median home price - Apr. 05: \$509,230 (Source: C.A.R.)

Calif. affordability index - Apr. 05: 17 percent (Source: C.A.R.)

Calif. highest median home price by C.A.R. region Apr. 05:

Santa Barbara So. Coast \$1,285,000 (Source: C.A.R.)

Calif. lowest median home price by C.A.R. region Apr. 05:

High Desert \$272,650 (Source: C.A.R.)

Mortgage rates - week ending 6/9:

30-yr. fixed: 5.56%; Fees/points: 0.6%

15-yr. fixed: 5.14%; Fees/points: 0.5%

1-yr. adjustable: 4.21%; Fees/points: 0.6%

Source: Freddie Mac -2 month delay for most current numbers

EXHIBIT 2: BRAC Fast Facts

BRAC Fast Facts

- U.S. Military Base Closings May Save \$49 Billion Over 20 Years
- Previous BRAC rounds have taken place in 1995, 1993, 1991 and 1988.
- The president must approve or disapprove the list as it is received. If he approves...
- Recommendations become law in 45 days, unless there is congressional disapproval.
- The BRAC process will conclude by year's end and recommendations be implemented in 2006 and run through 2012.
- BRAC <http://www.defenselink.mil/brac/>

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Arizona Net loss: (550)

California Net loss: (2,018)

Biggest changes:

- Naval Medical Center San Diego (1,630)
- Naval Base Ventura City (1,534)
- Naval Air Weapons Station China Lake Gain 2,469
- Naval Station San Diego Gain 1,170
- San Diego County Specific: Gain – 1551 Loss – (2592) = Net loss of (1041)
- Marine Corps Base Miramar Gain 72
- Marine Corps Base Camp Pendleton net loss (144)
- Defense Finance and Accounting Service, San Diego (240)
- 4181 Ruffin Road San Diego CA 92123-1819
- Naval Medical Center San Diego (1,630)
- Naval Base Coronado loss of (460)
- Naval Base Point Loma Gain 309
- Naval Station San Diego Gain 1,170
- Naval Weapons Station Fallbrook loss of (118)

New Mexico Net Loss: (2,849)

- Cannon Air Force Base loss of (2,824)
- Cannon AFB, NM 88103
- Near Clovis on Hwy 60 in Eastern NM, 27th Fighter Wing
- Southern NM will be aided by Ft. Bliss expansion.

Texas Net Gain: 6,150

- Fort Sam Houston Net Gain of 9,364
- San Antonio, Texas 78234-6120
- "Home of Army Medicine"
- Fort Bliss Net Gain of 11,501
- El Paso, Texas: Home of the Air Defense Artillery Center and is responsible for air defense artillery training of U.S. soldiers and various allied nation soldiers. Base is comprised of approximately 1.12 million acres of land in Texas and New Mexico.

Arkansas Net Gain: 3,585

- Little Rock Air Force Base 3,898
- located next to the city of Jacksonville in central Arkansas
- Home of the 314th Airlift Wing training and support of C-130 flight crews for 'Global Reach' missions.

EXHIBIT 3: Local Area Statistics (San Diego, LA and San Francisco)**San Diego Area Statistics**

- San Diego Jurisdiction Facts: Last updated: August 2004
- http://www.sandag.cog.ca.us/resources/demographics_and_other_data/demographics/factfacts/sand.htm
- Incorporated 1850
- Acres 219,185
- Square miles 342.5

Population Trends (1980 - 2004)		
Year	Total Population	% Growth From Prior Period
1980	875,538	
1990	1,110,549	27%
2000	1,223,400	10%
2004	1,294,032	6%
2010	1,370,328	6%
2020	1,507,794	10%
2030	1,656,820	10%

2030 Cities/County Forecast % Change					
	2000	2010	2020	2030	2000 - 2030
Total Population	1,223,400	1,370,328	1,507,794	1,656,820	35%
Housing Units	469,689	519,996	558,075	604,399	29%
Civilian Employment	742,904	831,363	897,245	941,294	27%

Year	Population	% Increase
2000	2,813,800	n/a
2010	3,211,700	14
2020	3,528,600	10
2030	3,855,100	9

SOURCE: SANDAG. These estimates from SANDAG were recently adjusted down. They do not account for any slowing of economy and subsequent negative net migration this would cause.

Los Angeles and San Francisco Statistics: <http://www.car.org/index.php?id=MzE3NDg=>

EXHIBIT 4: Dow Theory Market Phases

Each Market (Bull and Bear) Has Three Psychological Phases:

Bull Market

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- Phase 1 - Disbelief
- Phase 2 - Rising Expectations
- Phase 3 - Mindless Euphoria

Bear Market

- Phase 1 - Disbelief
- Phase 2 - Growing Fear
- Phase 3 - Despair

Bull Phase 1 – Disbelief

- Stocks discount the worst that can be seen ahead and turn up in the face of bad news (seller exhaustion)
- Stocks climb a "Wall of Worry"
- Informed investors "Accumulate" stocks
- Era of great values but public is skeptical

Bull Phase 2 - Rising Expectations

- Stocks continue to rise amid emerging good news
- Reasons for optimism become evident
- The public begins to enter the market
- Bad news has little effect on market
- Unexpected good news seems to go with the trend
- Longest and most deceptive phase
- Every decline turns out to be a buying opportunity
- Bulls are positioned with the trend, the shorts (bears) are destroyed

Bull Phase 3 - Mindless Optimism

- A "New Era" of endless prosperity is announced by people who should know better
- Investors disregard traditional measures of value
- Stocks are being "Distributed" to an unsuspecting and inexperienced public
- Tales of making a killing abound
- Rampant speculation in hot stocks, funds, sectors, emerging markets, IPO's, futures and options
- Belief that the market only goes up
- Belief that the big risk is being out of the market
- Absurd predictions for how high the market will be in three to five years
- People expect above average returns (> 15 %)

Bear Phase 1 – Disbelief

- Stocks discount the best that can be seen ahead and turn down in the face of good news (buyer exhaustion)
- Stocks slide down a "Slope of Hope"
- Informed investors continue to "distribute" stocks. Each rally is an opportunity to sell
- Public is told by the establishment to "hold on for the long term"

Bear Phase 2 - Growing Fear

- Stocks continue to fall amid emerging bad news
- Reasons for alarm become evident
- Good news has little effect on market
- Unexpected bad news seems to go with the trend
- Longest and most deceptive phase
- Every rally turns out to be a selling opportunity
- Bears are properly positioned with the trend, the bulls are destroyed

Bear Phase 3 – Despair

- Negative sentiments
- Investors disregard traditional measures of value and sell
- Investors are disgusted with stocks and vow never to buy stocks again
- Liquidation – forced selling of good stocks to cover losses
- Capitulation – selling to preserve what capital they have left
- Funds, brokerages, advisory services, investment clubs fold
- Accumulation of stocks by informed investors

EXHIBIT 5: California Affordability Index Method of Calculation

STEP 1: CAR's housing affordability index is based on the median price of existing single-family homes sold from CAR's monthly existing home sales survey. Starting in 1987, this survey is based on reports of closed escrow sales from 80 Boards or more of REALTORS® and multiple listing services around the state. Prior to 1987, the survey was based on reports from 45 Boards.

STEP 2: It is assumed that a household can make a 20 percent down payment on the median-priced home. Therefore, the loan amount needed to purchase a home would be 80 percent of the median home sales price.

STEP 3: Using the national average effective mortgage interest rate on all fixed and adjustable rate mortgages closed for the purchase of previously occupied homes as reported monthly by the Federal Housing Finance Board, the monthly payment on a 30-year loan is calculated.

STEP 4: Monthly property taxes are assumed to be 1 percent of the median home sales price divided by 12. This amount is added to the monthly payment figure calculated in the previous step and is part of the PITI payment.

STEP 5: Insurance payments on the house are assumed to be 0.38 percent of the median home sales price divided by 12 in order to come up with the monthly amount which is added to the figure for principal, interest, and taxes as above.

STEP 6: It is then assumed that this monthly payment for principal, interest, taxes and insurance can be no more than 30 percent of a household's income. Thus, the monthly housing payment is divided by 3 to come up with the minimum monthly income needed to qualify for a loan on the median-priced home.

STEP 7: Starting in 1998, data for the distribution of households by various income ranges was obtained from Claritas/NPDC. Monthly figures were developed based on the projected percent change in the annual median household income compounded on a monthly basis. Prior to 1988, household income utilized in the housing affordability index was based on projections by C.A.R. using the 1980 census data as a base.

STEP 8: The minimum income amount calculated in Step 6 is multiplied by (12) to determine the minimum annual income needed to qualify. This amount is compared to the distribution of households by various income ranges to determine what percent of (he households have at least that much income or more; this percent becomes the Housing Affordability Index.

EXHIBIT 6: Stock Fact & Various Factoids

1. **STOCK HISTORY** - Since 1950, the total return of the S&P 500 stock index has experienced **3 consecutive down calendar years** just once (2000-02). Only one other time in the last 55 years has there been as many as **2 consecutive down years**. That bear market took place in 1973-74 (source: **BTN Research**).
2. **P/E STAT** - At the **peak of the stock market** in March 2000 when the NASDAQ hit 5049, the index was trading at a P/E ratio of 172. The index closed last week at 2090 and is currently trading at a P/E ratio of 30. The P/E ratio for the S&P 500 is 20 today and was 30 at the market's top in March 2000 (source: **WSJ, Barron's, SmartMoney**).
3. **INDICES DIFFERENCES** - In the last 20 calendar years (1985-2004), the **largest single-year difference** in total return between the S&P 500 and the Dow Jones was 10.5% in 1998. **Over the entire 20 years**, the Dow had an annualized average total return of +14.9% while the S&P 500 was up +13.2%. The Dow represents 25% of the total US stock market capitalization while the S&P 500 covers 79% of the market (source: **BTN Research, Wilshire**).
4. **STUBBORN, EMOTIONAL, AND CONTRARIAN** - If you had been a "**buy-and-hold**" investor with the S&P 500 over the 20 years ending 5/31/05, your average annual return was +9.6% (not counting the impact of reinvested dividends). If you got **out of the market** the day after every 2% or more tumble and you **reentered the market** the day after every +2% or more gain, your average annual return would have been +4.4%. Or if instead you got **out of the market** the day after every +2% or more advance and you **reentered the market** the day after every 2% or more loss, your average annual return would have been +5.5% (source: **BTN Research**).
5. **BUYING AND SELLING** - Approximately 25% of **daily stock trading** in the USA is conducted by hedge funds (source: **Barron's**).

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VARIOUS FACTOIDS

1. **BIG COMPANIES** - 16 of the 25 **largest companies in the world** (based upon stock market capitalization) are based in the USA, including the 4 largest corporations overall (source: **Financial Times**).
2. **MULTIPLE CHOICES** - The **average number of investment options** available to employees today within their employer sponsored 401(k) plan is 14 (source: **Hewitt Associates**).
3. **TAX STAT** - Through the first 8 months of fiscal year 2005, the USA has collected only 3 cents in **federal estate taxes** for every \$1.00 that it has collected in **individual income taxes** (source: **Treasury Department**).
4. **YOU MUST WAIT** - Charles Grassley (R-Iowa), the chairman of the Senate Finance Committee, has proposed that the age at which an individual **could qualify for full Social Security benefits** should gradually increase to age 69. Under the current law that was enacted in 1983, the age at which an individual is eligible for full retirement benefits is 65 ½. That age limit is scheduled to increase to age 67 by 2027 (source: **Reuters**).
5. **FOR A ROOF OVER YOUR HEAD** - 31% of American households **spend at least 30% of their gross income** for either a monthly mortgage payment or a monthly rental payment. 14% **spend at least 50% of their income** for their monthly housing expenditures (source: **The Joint Center for Housing Studies of Harvard University**).

6. **MORE AND MORE OIL** - OPEC oil ministers agreed last week to raise their **official oil production level** from 27.5 million barrels a day (MBD) to 28 MBD effective 7/01/05. The 27.5 MBD ceiling had only been in place since 3/16/05 when the daily target had been increased from 27 MBD. OPEC's **actual oil production** is currently over 29 MBD (source: AP, Financial Times, International Energy Agency).
7. **MORE FED ACTION TO COME?** - The Fed funds futures market is priced to reflect 3 additional +0.25% increases in the Fed funds rate **before the current rate hike cycle ends**. That would put the short-term Fed funds rate at 3.75% and suggests **a total of 11 rate hikes** will be implemented during this cycle. The next Fed gathering is a 2-day meeting on June 29-30th (source: Barron's, Federal Reserve).
8. **NO INFLATION LAST MONTH** - Inflationary pressures lessened in May 2005 as **the overall level of prices dropped** 0.1% from a month earlier. It was the 1st time the month-to-month change in prices had declined since July 2004 (source: Department of Labor).

EXHIBIT 7: Investor Resources

Rental Property Owner Associations <http://www.landlording.com/associations.html>

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