

A nighttime photograph of a cityscape. In the foreground, a multi-lane highway curves to the right, with long-exposure light trails from cars creating vibrant streaks of red and orange. The road is marked with white dashed lines and arrows. To the right of the highway, there are trees and a construction site with a yellow excavator. In the background, several tall skyscrapers are illuminated, with one prominent tower having a bright light at its top. The sky is dark with some clouds.

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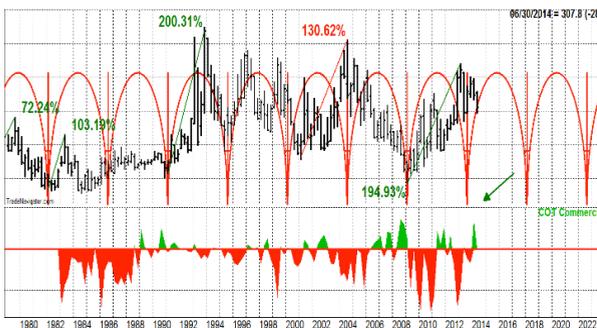
## REVISITING THE PERFECT STORM

BY JAKE BERNSTEIN // WWW.JAKEBERNSTEIN.COM

If you are at all familiar with the forecasts I've been giving in this report and in previous publications and webinars then you know that my work, my cycles, my recommendations, and my forecasts have clearly been positive on virtually every aspect of the real estate market since prior to the low. Without a doubt the forecasts and recommendations have been on target. In recent months many experts, in particular those who were wrong from the very beginning of this bull market in real estate, have started to doubt whether the upward trend can continue. I go on record again as stating that we are still only a small portion of the way through this secular bull market in real estate. The combination of facts and factors or perfect storm supporting continued strength remains as follows:

1. consistently low interest rates in all time frames
2. long-term real estate activity cycles in the United States remain in an upward mode
3. slowly but surely economic conditions in the United States are improving
4. slowly but surely the employment picture is improving and
5. the next big surge in prices is about to begin in the lumber market

Based on my item number five above you may feel that rising lumber prices would or could temper the rally in real estate. (See lumber cycle chart below).



I believe that when homebuilder's begin to raise prices on new construction based on their increasing cost of production, buyers who have been waiting to make

the commitment will jump into the market. Furthermore, those homebuilders who have an effective buy hedging program will have taken advantage of current low prices, and will use the rising lumber market as justification to pass the rising costs along to the consumer.

The chart above shows my lumber cycle on a long-term basis using the futures trading market. Note the activity of commercial traders who have been primarily on the buy side of the market in almost every instance prior to large cyclical moves up and lumber prices. If my analysis is correct then lumber prices over the next several years should move to new all-time highs.

As stated above, entities involved in the construction side of the real estate business stand to benefit considerably from buy hedge programs designed to lock in lumber prices. Accordingly, buying and selling and/or investing in real estate may not be the only way to make money in this secular new bull market. Don't underestimate the profit potential of investments on a long-term basis in real estate stocks such as KBH, RYL, SPF, and/or XHB which is the homebuilders ETF. This list is by no means complete or exhaustive since there are a number of real estate investment trusts which also stand to benefit from the current bull market (i.e VNQ, JRS).

If you have any questions about my analysis or comment please feel free to write me: Jake@JakeBernstein.com

## THE EDUCATION INITIATIVE TURNS CALIFORNIA, ARIZONA, AND UTAH INTO STATE INCOME TAX HAVENS

BY JASON THOMAS

Running a business is no small feat in today's economic environment. The negative impact of declining tax revenues from America's businesses and citizens has been felt in our local communities and is resulting in unprecedented steps being taken by municipality after municipality across the country from the California cities of Vallejo, Stockton, and San Bernardino to Harrisburg, Pennsylvania. More recently, the state of emergency in North Las Vegas to deal with their own fiscal crisis shows that we in Nevada share the pain as well. A testament to the crisis is highlighted by the percentage of gross revenues received by the State of Nevada from the Federal Government, which has increased from 29 percent just a few years ago to about 43 percent today. This makes Nevada highly vulnerable to sequestration and federal budget cut negotiations and the related rolling Federal fiscal crisis negotiations that are a long term component of the financial landscape.

One serious conversation today, in order to continue to enhance expenditures that are no longer sustainable in the current environment, our local communities, state governments, and national government are looking to squeeze revenue enhancements from those it feels that can afford to pay by attaching a small tariff to some or all portions of the river of money running through their communities. Europe has tried to levy a broad based financial transactions fee. Across the Atlantic, we too have considered taxing the flow of many financial transactions not based on profit, but some form of gross revenue stream. Locally, in Nevada, we have a different version to capture a tax on the river of money called the The Education Initiative which taxes a modified gross revenue of a business. Under this proposal, a 2 percent tax would be levied on a business with revenues in excess of \$1,000,000. It is inevitable that Texas will be referenced in the ensuing debate, as they are a similar state that does not tax income, and has implemented a similar program. The Education Initiative upped the tax ante with a rate between 200 percent to 400 percent of the Texas tax rate. The controversial and heavily chal-

lenged Texas Tax has a disproportionate application on various industries in Texas. The same will be true of the The Education Initiative, which allows businesses to exclude either; 30 percent of revenue, labor (excluding wages in excess of \$300,000 and 1099 contract labor), or Cost of Goods Sold from the tax.

From a financial perspective, as a CFO of a business looks at an additional cost, the CFO will fight to keep companies which are minimally profitable viable, and companies who have healthy profits, at their current profit levels to pay debt obligations and fund future growth. Some employers out of necessity may lay off employees and suppress wage increases. Suppliers may be cut, for which the cumulative impact is to reduce business activity, as well as employees at firms those firms that service business. If a decision to relocate a business to Nevada is evaluated to be on par with another state, such a tax may tip the decision to Arizona, Tennessee, a more competitive Texas, or some other state. The result would be to reduce Nevada's competitiveness and evolving and emerging business sectors at the very time when we need their support to begin to reduce our vulnerability and dependence as a state upon our Federal Government.

The following example is fairly consistent with my, and my colleagues, personal experiences working with businesses in the retail sector. Texas recognized the potential devastating impact on the retail sector and cut the rate applicable by 50 percent to the retail sector. There is a significant negative impact on many types of businesses in our great state: Assume \$100m gross revenue firm that has \$30m Labor or Cost of Goods Sold that had a three percent profit margin, or \$3m profit. The business faces a state business tax of \$1.4m under The Education Initiative. What business owner would want to effectively pay nearly 48 percent of their profits to a state business tax? This is not to mention roughly another \$544,000 of federal tax liability if the business is a C Corporation. The business would be required to pay roughly 67 percent of its income in combined state and federal taxation, with the lions share going to the supposed low tax environment state of Nevada. What is left for the business is about \$1m in profit. This does not take into consideration additional taxation to the S Corporation Business Owner due to the expiration of the Bush tax cuts and rising federal tax rates on "wealthy" tax payers. While the above result is significantly more negative if a firm posts a loss.

Below is a table of projected net tax on operating profit by industry compiled by Jason A. Thomas, CPA, Partner at Fair Anderson and Langerman, based on the compiled tax return information by Sageworks' Profit Sense, a national database on tens of thousands of filed tax returns of middle market small businesses. Profit Sense is a detailed industry report that provides real time industry data. It is highly likely that the effective rates in the table below will be significantly greater in certain industries such as legal services, physicians offices, and architectural and engineering due to the The Education Initiative's requirement that salaries over \$300,000 and contract labor is carved out for deduction purposes. There are also numerous cost of goods sold carve outs. Profit Sense data is not compiled consistent with The Education Initiative's requirements around how to compute labor and cost of goods sold pursuant to Initiative requirements, meaning that cost of goods sold and labor is likely over deducted in this hypothetical analysis. The below report was computed based on the lesser of 70 percent of sales, revenues less cost of goods sold, or revenue less labor.

<b>Industry</b>	<b>Effective Rate</b>
Software/Tech	25
Residential Construction	14
Non Residential Construction	11
Real Estate Related Activities	19
Lessors of Real EstateWvW	11
Architectural and Engineering	15
Legal Services	6
Equipment and Supplies Wholesalers	15
Building and Material Suppliers	27
General Freight	28
Restaurants/Hotels/Doctors	29/30/10
Medical and Diagnostic Hospitals	24/35

Every business owner with over \$1m of revenue will experience different issues that confront the business. Businesses that are unprofitable may resolve more quickly rather than struggle to survive waiting for the economy to turn around. The result may be increased dependence of Nevada on the Federal Government as we continue to expand our unemployment roles. The complexities in an unprecedented wave of taxation will have is far reaching and beyond the scope of the margins tax discussion. Unfortunately, like in California which could become a tax haven for Nevada businesses under this legislation, it is often too easy to bifurcate, isolate, and eradicate the true impact of the tax hike. A concern for every business owner should be the debate that is shaped over this well meaning legislation. While we can articulate clearly to legislators, the public battle that ensues is one of sound bites to the residents of Nevada, who may not appreciate the negative short and long term impact on Nevada. And, like California whose voters supported a tax on business that did not impact the vast majority of her residents, the residents of Nevada may vote into law which impact may result in potentially catastrophic unintended consequences for both the Treasury of Nevada and her residents. Detroit is a hallmark that illustrates the depths residents reach in harmful business policy to get their fair share.

While there is variability of the individual experience, this much is certain; many successful businesses simply will not be able to locate or stay in Nevada. We must as the great community and state that we are, discuss in a non-partisan fashion, the impact that a significant increase in taxation will have on the lives of our family, our friends, and our community.

The American Institute of Certified Public Accountants has a number of resources to begin a non-partisan dialogue

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in our communities. The taxes born by each of us as residents of Nevada and as citizens is significant. To begin the discussion in our community, please go to: <http://www.totaltaxinsights.org>

To begin a discussion on where America is financially, go to What's at Stake.

<http://www.aicpa.org/Advocacy/Pages/CPAsInsight.aspx>



Leonard C. Wright, CPA/PFS is a member of the American Institute of Certified Public Accountant's Financial Literacy Commission, AICPA Money Doctor, past member of the AICPA Personal Financial Planning Executive Committee, and member of the National Media Task Force. He also hosts Financial Fridays on KLAV 1230 AM at 3:00PM. For information on financial literacy go to: <http://www.360financialliteracy.org> and [feedthepig.org](http://feedthepig.org). Opinions here do not express the opinions of the AICPA. Leonard can be reached at 213-447-1833 and [wrightplanners@hotmail.com](mailto:wrightplanners@hotmail.com)



Jason Thomas has been a Certified Public Accountant and tax specialist for more than 20 years. As a firm partner and vice president of tax services, he oversees tax returns and reviews as well as provides consulting services to FAL clients in the areas of financial analysis, tax projections and wealth management. Jason also hosts Financial Fridays on KLAV 1230 AM at 3:00PM. Jason can be reached at [Jasonathomas@cpa.com](mailto:Jasonathomas@cpa.com)

I'm sure, I enjoy the intrigue of looking at new investment opportunities, new categories of asset classes, and possibilities of higher returns. But like the old wise man once said, "if its too good to be true, it probably is."

We all have dreams...Some more opulent and extravagant than others, but we all have them. The idea of a "short cut" to the final goal is always attractive and tempting. And that very temptress is the cause of many brokenhearted (or just plain broke) investors.



Entrepreneurs need to be especially careful with these temptations. Entrepreneurs are, in fact, eternal optimists...And in the investment world, optimism will get you all the way to the bankruptcy courthouse steps.



I've been around the block in just about every type of investing you can imagine. From the stock market, to commodity futures, currencies, oil & gas, private equity/angel investing, banking startups, real estate investments (my main occupation), you name it...I've looked at it or invested in it. More often than not, my core personality trait as a "realist" has saved my proverbial butt. And, on occasion, I've fallen for the allure of high returns, only to be utterly disappointed at the end of the day.

## THE LURE OF "LIFE CHANGING RETURNS."

BY JORDAN WIRSZ

We all strive for something great. If you didn't, you wouldn't be reading this newsletter. And in the pursuit of "greatness," it is easy to find yourself looking for the extraordinary investment...The key, the "holy grail," the bee's knees. Although I am a realist, like many of you

Its not difficult to understand WHY we fall under spells of grandeur. That is simple to understand. We all want something more than we have now. And you know what? There is not a thing in the world wrong with that! But the real (and dangerous) question is: HOW do we fall under these spells? After years of observing investors come into my office and tell their stories, I've come to what I believe are the three common elements of being suckered into terrible investments promising high returns.

The three "sucker bets" investors fall for are:

1. You want to believe that someone has a special "gift" for making money in a particular field (a trader, investment advisor, stock broker, etc.). Whether it is technology, commodities, the stock market, private equity, oil & gas, etc., the "sucker bet" is that someone (the investment manager) is foolproof and that they have enough experience and knowledge "not to lose." Plain and simple, this magical person just doesn't exist. You have the same odds of finding a leprechaun under the rainbow than the broker who doesn't lose. Everyone, even the most successful businessperson or investor, has their losses. If they tell you otherwise, "run like hell!" Just because someone has made themselves money in the past, does not in any way shape or form guarantee that they will make you money in the future! Never play "follow the leader." That is a very dangerous game in the investing world!!!



2. You want to believe that "this deal is special for insiders." In fact, I come across the "deal of a lifetime" about once a week. These "special deals" have at least the same degree of risk as any other investment...And maybe even more risk. There are no "can't lose – sure bet" deals. Period.



3. You want to believe that a new investment that you've never been involved with before is the "holy grail." I get this a lot from people wanting to invest in oil & gas deals. All it takes is one good salesman to sell you an idea of a "sure thing" that ends up being a dry hole, and you'll realize very quickly that there is no foolproof investment. You may have read about people getting rich investing in oil & gas deals, private equity, technology startups, and import/export, so you begin to associate those investment classes with "getting rich." But you don't read about all the people that go broke 95% of the time in those investments.



***There are no secrets to getting wealthy through investments.***

Rule #1 to getting wealthy by investing: Don't fall under the spell of thinking that there is some "special investment" that will make you rich with little risk. Any single investment that has the potential to make you rich, has a lot of risk.

Rule #2: Don't play "follow the leader." No one, not even your wealthy friends or your stock broker, have a secret to investments that work all the time. Believe and trust in the people you work with, but don't invest blindly into things that you don't understand just because "someone else seems to be successful doing it."

Rule #3: There are no "special deals." There might be certain deals that are better than others, but there is no "get rich" investment that has little to no risk.

As young children, we all wanted to believe that Santa Clause was real. As adults, we want to believe in the "investment fairy" – the person, the type of asset, or the deal that will produce huge returns with little risk...The "short cut" to our own individualized goals. The truth is, that fairy doesn't exist, and as in the tortoise and the

hare story, slow and steady wins the race. Inch by inch, percent by percent, your goals will be met. If you can generate 10%, 20%, or 30% on your money, good for you! But setting yourself up to hit homeruns every time you're up for bat is a failing strategy that will knock you down time and time again.

Unless you have a solid understanding of the investment, and an investment plan, you are gambling, not investing.

I urge you to invest in things you fully understand, or can easily be explained to you so that you understand them with clarity. Stay away from complex strategies and people professing to be brilliant enough to "have it all figured out."

Slow and steady wins the race.

Stay wealthy my friends.



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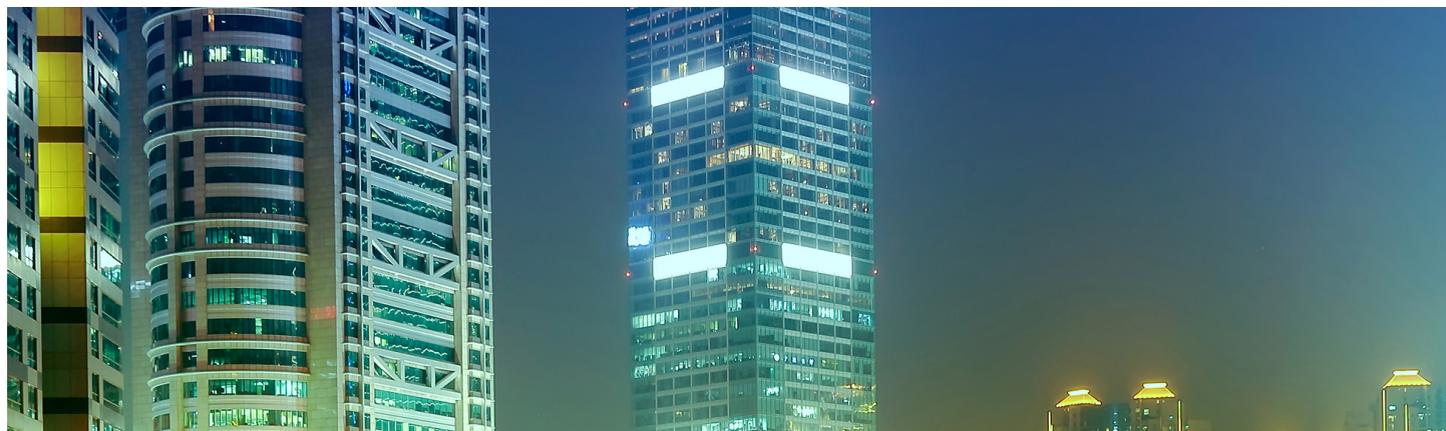
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*a LITTLE about SAVANT*

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Our clients range from high net worth individuals, also known as “accredited investors,” to large hedge funds, pension funds, endowments, and family offices.

Our team’s experience spans from residential housing investments to commercial and land of all genres, types, and sizes.

For more information about Savant, visit our website at:

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*Jordan Wirsz, CEO*  
Savant Investment Partners

Jordan Wirsz serves as the CEO of Savant, and brings with him more than 13 years of real estate investment experience in a wide variety of real estate assets representing approximately \$750 million. Mr. Wirsz is responsible for overseeing Savant’s real estate investments including locating and negotiating real estate transactions, property management, portfolio strategies, partnerships, affiliated fund management, investor relations, and administration. Prior to Savant, Mr. Wirsz served as CEO of a private capital finance company

which managed more than \$100 million of capital including a private investment fund. As a real estate investment manager, Mr. Wirsz underwrote and funded several hundred million dollars of investments in a wide variety of real estate transactions across the United States, including both commercial and residential land entitlement and development projects, industrial properties, office projects, hotel construction, retail shopping centers, and build-to-suit transactions. Mr. Wirsz has been and continues to be a very active real estate investor and developer. Mr. Wirsz is a nationally recognized real estate expert who has been recognized by members of the U.S. Senate, U.S. Congress, Nevada state government, and has been featured on numerous national television networks including CNBC, NBC, and Fox News. Mr. Wirsz was awarded the prestigious “Young Entrepreneur of the Year” award by the Small Business Administration in 2007.



*Jake Bernstein*

Jake Bernstein is an internationally recognized futures analyst, trader and author. He has written more than 41 books, numerous research studies and newsletters on futures trading, stock trading, trader psychology & economic forecasting.

Mr. Bernstein is publisher of Jake Bernstein’s Weekly Futures Trading Letter which has been in continuous weekly publication since 1972. He has been a guest on numerous business radio and television shows including Wall Street Week, CNBC, JagFN.TV and

WebTV.com Mr Bernstein is a consultant to investors, traders, financial institutions, short-term traders, brokerage firms and commercial firms. Jake has pioneered numerous technical, cyclical and seasonal methodologies in the futures markets.