



SAVANT REPORT

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FARMLAND VALUES A BUBBLE?

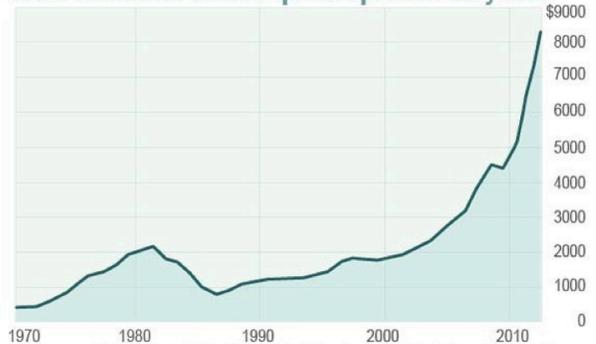
BY JORDAN WIRSZ

Will the sun keep shining on farmland values? The debate has been fierce for nearly a decade as farmland prices around the U.S. have skyrocketed. From the early 2000's to +/- 2012, farmland values in many areas doubled, tripled, quadrupled, and sometimes even more. Farming was once a business that people thought of as a great way to work hard, take lots of risk, and stay poor. But today, farming is a business that has created multi-millionaires many times over. Hard work? Yes. Risk? Yes. Big rewards? Yes.

Not all farmland is created equal. As with any real estate, location and quality make a big difference in determining price. With farmland, it's mainly about soil types, weather, and water. Irrigated farmland usually trades at a stiff premium in areas where water and weather don't cooperate often enough. In other areas, weather does the watering, thus irrigation is not needed quite so much. Areas like Iowa and Illinois tend to have much higher values due to more cooperative water, soil, and as a result, better crop yields. The better the soil and better the weather, with the right amount of water, will produce more bushels per acre, which equates to higher value land. In areas with less water and lower quality soil, the yields of crops are lower, and thus the land has lower values.

The premium real estate (IA and IL for example) will always trade at a premium. But as you can see from the chart below, IA farmland has had a heck of a ride up.

Iowa farmland values quadrupled in 10 years



Source: Iowa State University Extension and Outreach Land Values Survey

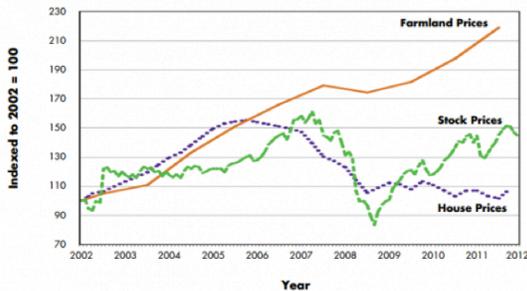
Although this chart shows values in 2010 of roughly \$8,000 per acre, values have reached \$15,000, \$18,000, and even higher in recent years. In the trading world, we call that a "parabolic" curve...Which is often (not always) indicative of a bubble.

As with every asset class, farmland values and commodity prices (highly correlated) are a cycle. What goes up, also comes down. In 2011, 2012, and even 2013, we saw quite a bit of emotional buying in the farmland market. Hedge funds, pension funds, and big investors have been piling into farmland at record paces over the course of this bull market. For the first time in decades, the agriculture business is "sexy." Famed commodity investor, billionaire, and former partner of George Soros said it best, "farmers will be driving Lamborghinis in the near future." And, sure enough, those days are here. I

know a good number of farmers and farmland owners that are cashing in their old pickup truck for a Bentley, Maserati, or AMG Mercedes. They are also buying second homes and even third homes in Scottsdale, Arizona, beach cities, and even the occasional private jet trip.

My, my, times have changed!

COMPARATIVE PRICE CHANGES: FARMLAND, STOCKS, AND HOUSE PRICES

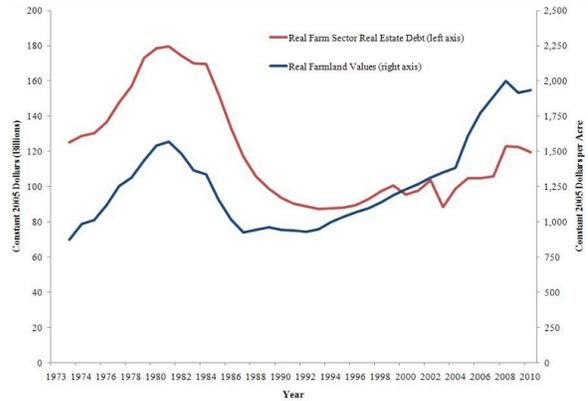


The commodity business is one of the very few “self equalizing” businesses in the world. When prices go up, everyone plants more, and with more product, prices drop. When prices drop, farmers plant less, supply goes down, and then prices go up. It’s a bit more complex than that, but you get the point...

Commodity prices hit new all-time highs in 2012. Since then, prices of corn, soybeans, and other crops have absolutely collapsed. This cycle is causing a lot of farmers some pain in the pocketbook and also a little emotional stress. Many of them have paid record prices for farmland, only to see their profit margins evaporate in front of their very own eyes. Although most farmers tend to be conservative from a financial standpoint, the record low interest rates and good times prompted many of them to leverage more than they should have. And along with the good times, the banks opened their purse strings to farmers who wanted to leverage even more.

Unless you’re betting that commodity prices go through the roof, and crop input costs stay low, there is no real incentive to be buying farmland right now. Profits on owning commercial real estate from a cash-flow perspective is much better than owning farmland, especially considering the weather risk, commodity price risk, and 20 hour work days during planting and harvest.

The chart below aptly illustrates that debt on farmland has not risen as much as values have. This is a good sign for stability in the farmer’s balance sheet. This is very different than the housing bubble of 2007-2008 which had debt levels that skyrocketed beyond anyone’s competent comprehension.

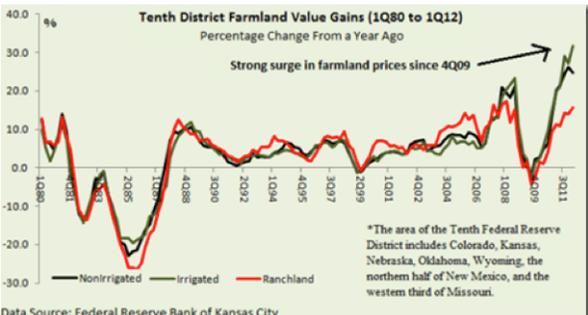


The bottom line is that a cycle is a cycle, and what goes up, also comes down. As for farmland, there are dozens of intricacies to the market, although the primary drivers are commodity prices and input costs, which dictate profit margins and viability of farmers buying more land to farm. Right now, there is little reason for farmers or farmland investors to be buying more farmland.

The big picture of global population growth and economic growth in the middle class is certainly a bullish picture for farmland long term. But the near term is a very different picture.

The question remains, “is farmland a bubble?” I don’t think I would categorize farmland as a bubble... But I do think that it is more than likely overpriced by a very large margin...20%, 30%, maybe even a little more. A serious correction could be in store for farmland values.

As for me, I am quietly sitting on the sidelines for the next 5-7 years, waiting for the correction that I believe is coming...Waiting for the right opportunities to invest in the agricultural markets, specifically (crop) farmland. When in doubt, stay on the sidelines. When value is easy to see, then it’s time to enter the market. And I’m looking forward to getting involved when I see value. But until then, on the sidelines I shall stay.



Stay wealthy my friends.

QUOTES *of the* MONTH



*"Never bet on the end of the world. It only happens once."
- Art Cashin*



*"Fallible emotional people determine price; cold hard cash determines value."
- Christopher C. Davis*



*"Never invest in any idea you can't illustrate with a crayon."
- Peter Lynch*

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CORRECTION OR BUYING OPPORTUNITY?

BY JAKE BERNSTEIN

It's human nature. In a bull market the Bears will always be looking for corrections frustrated that they have missed the bottom. In a bear market the Bulls will always be looking for a bottom frustrated that they've missed the opportunity to sell short or to liquidate their positions. This is the nature of market behavior which determines the behavior of traders, investors, and market analysts. But opinions and feelings are not facts. Fully objective technical indicators, however, are factual and not subject to interpretation.

This issue is now particularly apropos because a decline in the stock market is developing and thereby emboldening the Bears and making the Bulls sheepish. As readers of this report know my work has been bullish on the stock market for four years now. Some analysts will point to the length of the bull markets and claim that it has become geriatric while they cite historical statistics about the life of previous bull markets. That would all be

well and good if we were living in times that were typical of previous economies. This, however, is not the case. Artificially low interest rates by government decree have continued to force investors into the stock market as a home for some degree of return. Those who believe that stocks will move lower when and if interest rates start to go up, are predicting dire consequences for stocks and in recent days their voices have become even louder as they are encouraged by stock market weakness. Economics is not a simple social science. There are many moving parts to the equation. The belief that stocks will move lower if interest rates move higher is simplistic and does not account for the numerous other aspects of the economic equation.

Based on my view of cycles, timing, technical indicators, and market trends I continue to view the current correction as a buying opportunity for intermediate to long-term investors. The monthly and weekly stock charts below show my expected technical support levels where I believe investors should enter if they are either out, having taken profits, or still waiting for that elusive buying opportunity.



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THE FAMED “CONDO EXIT” STRATEGY

BY JORDAN WIRSZ

Adding value in the real estate business is what we do best. And, for those of us who know how, it really is a lot of fun. What better occupation than one that is fun, and makes large sums of money? If you find one, let me know!

Back in the “hay days” of 2004-2008, real estate investors and developers began to realize a very important key factor about the valuation of real estate:

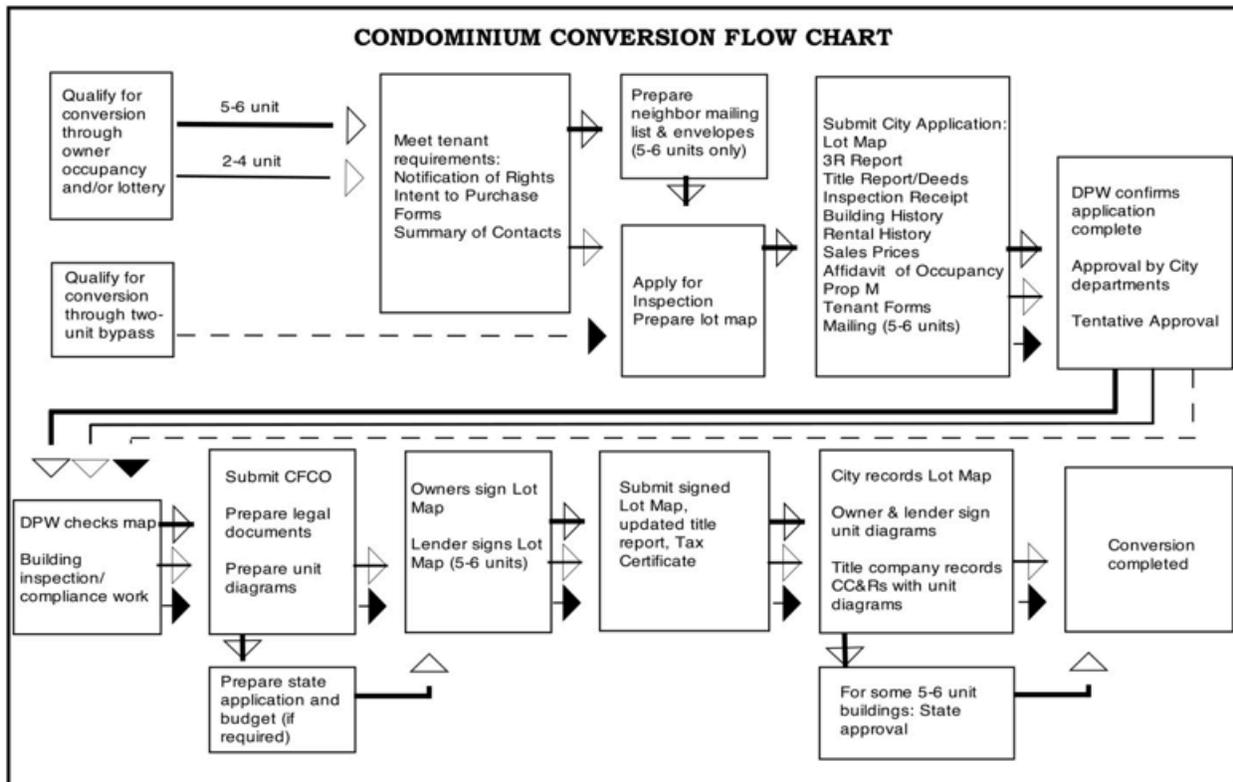
“The value of real estate to an investor is the income, but the value to a consumer is the emotion.”

Which do you think garners the higher value? Emotion of course! Thus, investors and owners began to find ways to sell larger real estate projects to individual owners who wanted the pride of ownership as well as the ben-

efit of paying a mortgage instead of rent. And so, the “condo conversion” craze was born.

Apartment owners began turning their apartments into condos. Apartment developers began building condos, not apartments. Commercial retail property owners and office property owners began “condominium-izing” their properties, and selling them to would be tenants, or in many cases, even the existing tenants. Finally, developers and investors found a way to capitalize on the “consumer premium” which would be generated by selling to someone who was making a more emotional decision to own rather than an economic decision to own.

The new “condo conversion” craze wasn’t without pitfalls. First, it is enormously complex for those who don’t understand the technical aspects of legally converting a single property into many. The chart below is a simple* explanation of the basic process, but certainly is not a “definitive guide” to executing it.



The second pitfall was the unexpected “conversion” issues which many investors didn’t expect. For example, many apartment owners who desired to convert their properties to condominiums didn’t give enough credence to the fact that many of their apartments were old and unattractive. Furthermore, they weren’t built with condo-quality in mind. And so began the “upgrade” process. Next, they underestimated the complexity of putting together a sales team, sales program, and financing for the newly “condominium-ized” units. The list of pitfalls go on...

The bustling market of the mid 2000’s seemed to overcome many of these ill-thought out condo conversions which were extraordinarily poorly executed. But when the mortgage defaults started to rise, the next wave of condo conversion problems arose...Who would manage the dilapidated old condos which were now vacant and abandoned? Who would pay the high association dues to keep up the communities? The developer/investor who originally created the “condo conversion” could have been left with less than 50% of the condos remaining unsold...And now they had little control over the failing community. The problems continued to grow...

The condo craze in the commercial property arena wasn’t all that much better...And the dollar figures were much higher...

But alas, the rising market once again has helped resolve the issues, and once again, we will find ourselves staring the “condo exit strategy” square in the face. Wiser and smarter this time around, investors and developers will begin the condo conversion process earlier in the bull market cycle, and they will be more apt to exit prior to the top of the market, so as not to get caught with left over inventory at the top of the market. Commercial real estate owners will also find ways to capitalize on the coming bull market, froth with intent to create value from thin air by selling to the emotional owner, not the investor.

While the strategy is not revolutionary by any means, it certainly offers investment companies like us the opportunity capitalize on existing products in ways that only a couple decades ago, was rarely even considered. “Re-development” is a development strategy that has yielded extraordinary returns...But the idea of combining a re-development opportunity with a condo conversion strategy has the potential to be doubly profitable. For the end user, however, beware. Condo conversions are rarely built to “condo specifications,” and quality



is likely sacrificed from what you would receive from a well-built condo product (whether commercial or residential).

As with all things in the real estate world, education and knowledge is worth more than gold. Be wise, invest wise, and use caution when prudent. We certainly will be, as we look for more of our own opportunities to take advantage of the “emotional premium” in the commercial condo markets.

Stay wealthy my friends.

SHADOW INVENTORY: FACT OR FICTION?

BY JORDAN WIRSZ

For the last few years, the housing market has been stifled by fears of another “double dip” in prices. Housing bears constantly beat the “shadow inventory” concept into the heads of uneducated investors who are weary of stepping back into the real estate market.



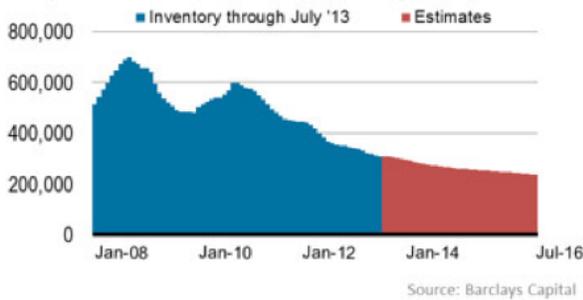
The term “shadow inventory” confuses many people. It is a term that refers to real estate properties that are either in foreclosure, have been foreclosed on but not yet on the market for sale, or properties that will soon be in foreclosure.

I have been outspoken about the inaccuracy of the shadow inventory numbers for several years now. Everyone seems to have statistics and numbers to prove that the shadow inventory of homes is significant, however, mysteriously the inventory never seems to show up, and no one seems to have a list of addresses showing this supposed vast amount of shadow inventory. The closest thing I’ve seen to a real statistic comes from utility companies who report thousands of properties without power or water turned on. But I can shoot quite a few holes in that use of abstract statistics... For example, there were thousands of empty lots with power stubbed to them which never had the power turned on.

The cause of the “shadow inventory” is purported to be the banks not wanting to release foreclosed inventory on the market until prices recover. And supposedly, there are tens of thousands of homes not yet released. However, I have “inside sources” with Fannie Mae that in fact show the number of “shadow inventory” to be merely a few months of supply for the market, not a few years as some people suggest.

Disappearing Shadow

The bank-owned inventory of foreclosed homes is expected to continue to shrink (monthly totals)



Any way you slice it, the estimates of shadow inventory, and the actual released numbers of inventory not yet on the market continue to shrink at a rapid pace. I predict that one day soon, the myth will be debunked altogether, and investors are once again going to rush in clamoring for real estate, then realizing that they missed the boat the first time around. Sad to say, many investors who were unwilling to get into the water at the bottom of the market kept waiting for a “pull back” to get invested. That pull back has never happened, and it likely won’t.



The decrease in inventory continues, making real estate prices increase. The ebb and flow of the real estate market will no doubt continue its up and down patterns as inventory increases and decreases as in any supply and demand market. But if you look at the direction that the tide has shifted to, you will no doubt see that the bias in prices is to the upside.

The fact remains that the housing market continues to recover, inventory continues to follow a descending trend line since the height of the foreclosure crisis, and the idea of giant, unearthed shadow inventory is just a myth. If you’re waiting for a pullback, don’t. Timing a slight pullback in an increasing bull market, “looking for an opportunity to buy,” is a futile exercise to go through. Buy, hold, and wait. It really is that simple.

Stay wealthy my friends.



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.



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