

**MMG**  
C A P I T A L

## What's in a Return?

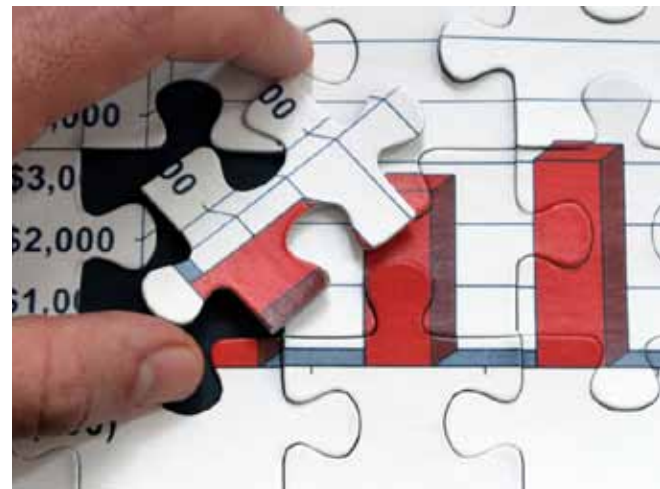


# What's <sup>in</sup> a Return?

*So you've found yourself a safe investment* that provides a reasonable amount of passive income. Congratulations! You've done well. That's about 95% of the battle when it comes to deciding what to do with your money. The other 5% is in the logistics. For example, deciding between funding your investment with taxable, tax-deferred or tax free money. Or, the most overlooked aspect of investing: how to structure deals to maximize your real rate of return.

When it comes to Trust Deed Investing, how do you tell what kind a return you're actually earning on your money? If a borrower gives you a secured note that is earning you 12% interest every year, does that mean that your annual yield will be 12%? As you may have guessed, the simple answer is, "*maybe.*"

Depending on how you've structured your investment and handle the payments that you receive, your real rate of return can vary. The good news is that 12% is the worst that you can possibly do. But, as investors we always seek to maximize our yield, so let's explore some simple concepts regarding deal structure and the time value of money that can enhance your actual yield when investing in Trust Deed Secured Loans or other Secured Investment Opportunities.



## Getting Started

As you'll see from the scenarios that we present below, when you receive your interest and whether or not you choose to reinvest your earnings can have a significant impact on your real rate of return. But before we get started, there are a couple of definitions that you need to be familiar with:

**Prepaid Interest:** *interest that is paid before it is earned*

**Compounding Interest:** *the concept of adding accumulated interest back to the principal, so that interest is earned on interest from that moment on*

**Effective Yield:** *the yield of an investment, assuming that you reinvest the interest that you receive periodically before the principal is paid in full*

Now let's see how we can maximize our Effective Yield by utilizing prepaid interest and compounding interest...

## Calculating your Effective Yield

### Scenario #1

Loan Amount: \$100,000

Loan Interest: 12%

Interest Payments: Monthly

If a borrower pays you 12% annual interest via monthly payments of \$1,000, what you do with the money from those payments will go a long way in determining your Effective Yield for the year. If you simply collect your money and deposit it into a checking account, your yield will sit tight at 12%. Let's see how we this is calculated:

Initial Investment:	\$100,000
Monthly Payments @ 12%:	\$1,000
x Number of Months:	12
= Total Interest Earned:	\$12,000
+ Initial Investments:	\$100,000
= New Principal Amount:	<b>\$112,000</b>

Nobody is going to complain about a 12% return on your money, but it would certainly bug you to know that you could've done better. What you failed to do in this scenario is take advantage of the well-known concept that we call Compounding Interest. By not reinvesting the monthly payments that you received, you missed the opportunity to earn interest on your interest! Let's see what the effect of doing so would have on your Effective Yield in our next scenario.

**Scenario #2 (Compounding Interest)**

Initial Investment:	\$100,000
Monthly Payments @ 12%:	\$1,000
x Number of Months:	12
<b>= Total Interest Earned:</b>	<b>\$12,000</b>
+ Additional Interest Earned:	\$780
+ Initial Investments:	\$100,000
<b>= New Principal Amount:</b>	<b>\$112,780</b>

**ADDITIONAL INTEREST EARNED**

Payment #	Months	Interest
1	12	\$120
2	11	\$110
3	10	\$100
4	9	\$90
5	8	\$80
6	7	\$70
7	6	\$60
8	5	\$50
9	4	\$40
10	3	\$30
11	2	\$20
12	1	\$10
<b>Total</b>		<b>\$780</b>

If you reinvest the money that you earn from the monthly payments that your borrower is making, you’re investment will start *Compounding*. You’re allowing the interest that you’ve earned to make even more interest! Assuming that we utilize the same figures from scenario #1 except this time we immediately reinvest the payments at 12% interest, let’s see what a difference it makes in our Effective Yield:

Instead of having \$112,000 at the end of the year, you earned an additional \$780, increasing your Effective Yield to **12.78%!**

You may be saying, “Big deal. It’s just one percent more.” But remember, we still haven’t done everything that we can to maximize our yield. Let’s take a look at one final scenario that utilizes both Compounding and Prepaid interest.

**Scenario #3 (Prepaid Interest)**

In some secured investment scenarios, borrowers will agree to prepay interest for a defined period. The reason that they do this is often so that they don’t have to bother with the trouble of making monthly payments when cash flow is a concern.

As an investor you may instinctively say, “But I want to get paid every month! Why would I allow them to do this?” And the answer is simple: because it can greatly increase your Effective Yield.

Prepaid interest is given to an investor immediately at the closing of a loan. Again utilizing our figures from scenario #1, let's assume that the borrower gives you 12 months of Prepaid Interest:

Initial Investment:	\$100,000
Prepaid Interest @ 12%:	\$12,000
= New Initial Investment:	\$88,000

Since the borrower immediately paid you \$12,000 for the right to borrow your money for 12 months, you now only have \$88,000 invested. The \$12,000 goes right back into your pocket which you can immediately reinvest. At the same time, even though the borrower gave you \$12,000 of your own money back in the form of Prepaid Interest, they still owe you \$100,000. So, let's quickly calculate what our return on our \$88,000 investment will be when the principal balance is repaid:

Initial Investment:	\$88,000
Payment after 12 months:	\$100,000
Actual Return:	\$12,000
$\$12,000 \div \$88,000$ :	13.64%

Remember, you didn't receive any monthly payments at all, yet your Effective Yield on your initial investment increased to **13.64%**! You made over an extra percent and a half just because you took your interest payments up front as opposed to monthly. In addition to making a superior return on your \$88,000 you still have a \$12,000 interest payment in your pocket that you can immediately reinvest and earn Compounding Interest on.

There is, of course, one consideration that we didn't take into account in this last scenario. We assumed that the borrower repaid the loan at its maturity in 12 months, but what would happen to our return if they repaid it earlier?

Remember, you keep all prepaid interest regardless of when the loan is repaid. If the borrower pays off your loan in 6 months as opposed to 12, you still get to keep the 12 months of interest that you received up front... doubling your Effective Yield to **27.28%**! You received 12 months of interest for a 6 month loan **and** you can now reinvest the entire balance in another loan with prepaid interest and compound it all!

Isn't investing great?!



## **MMG Capital**

MMG Capital is a private money and selected real estate opportunity investment firm. Its principles have over 50 years of combined experience in banking, real estate finance, development and investment and have managed over \$6 billion of assets during that time.

MMG Capital manages MMG Partners LLC, a Hybrid Trust Deed Fund that provides Asset-based Loans to well-qualified individuals. The purpose of the Fund is to provide our investors with exceptional returns on very conservative terms, utilizing a combination of Private Money Loan products and other Secured Investment Opportunities. The safety of our investors' principle is always top priority. The fund aims to provide its investors with a minimum double-digit return.

When you invest with MMG Capital, you know that our opportunities are derived from years of experience and that every transaction will be handled with utmost integrity. In addition, we believe that our business is your business. And that's why we always operate with complete transparency.

We invite you to explore the options that are available to you at MMG Capital and consider investing alongside a set of experienced professionals. Well-informed investment decisions are only made when all of the information is at your fingertips.

If you have any questions regarding MMG Capital, Trust Deed Investing, or you'd like to discuss the calculation of returns, please feel free to call us anytime at (310) 295.1121. In addition, you can visit us online at [www.mmginvestors.com](http://www.mmginvestors.com) for more information on investing trends and educational opportunities.

We look forward to working with you.



Experience, Integrity and Complete Transparency  
The marks of Responsible Investing