CROSS
MOUNTAIN
CAPITAL

Stocks vs. Real Estate

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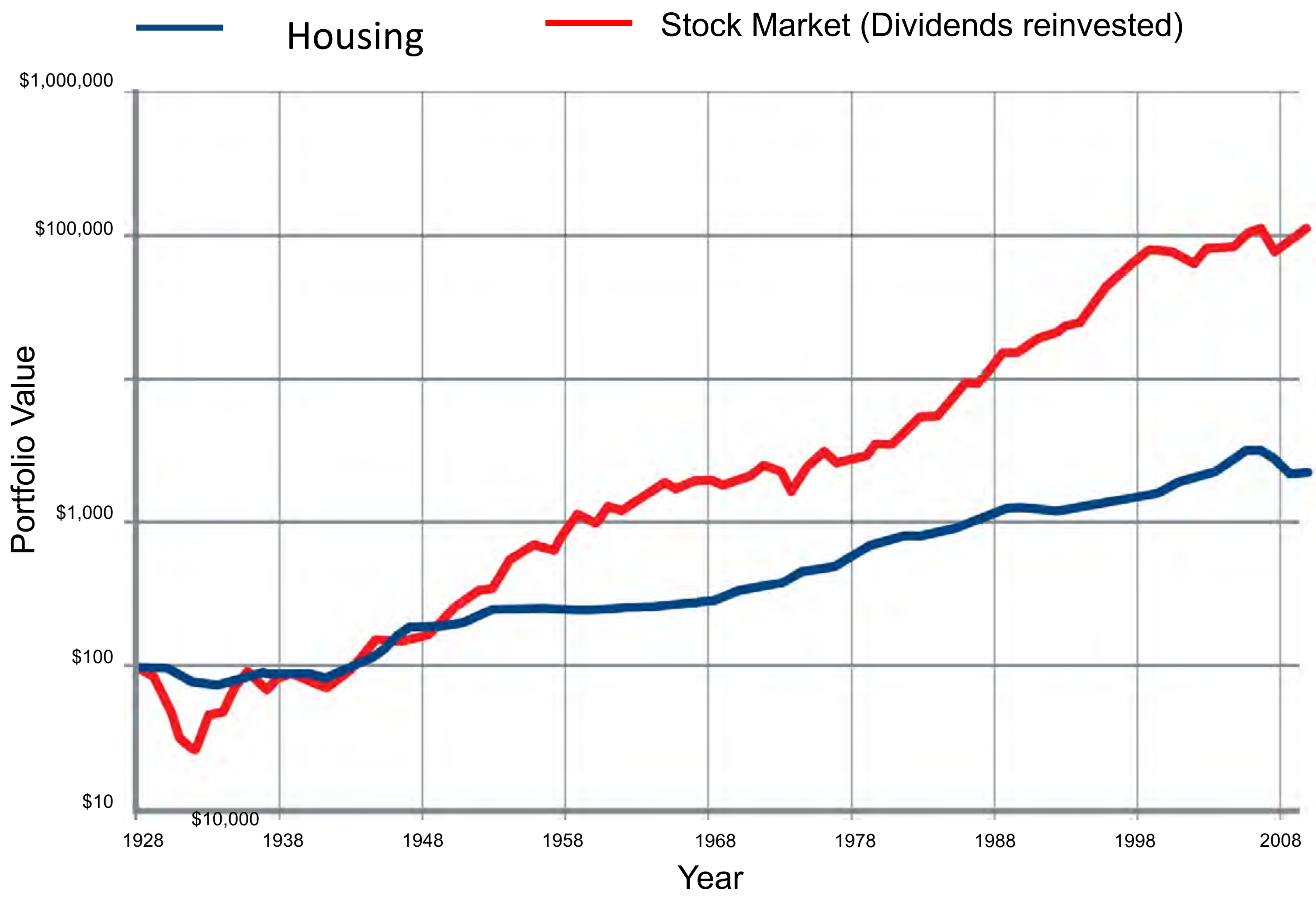
Section 1

STOCKS VS. REAL ESTATE

This eBook explains why real estate is a superior investment asset class to any other option, and why passive real estate investing through a multifamily syndication is the ideal way to invest in this asset class.

Stock investors often use a graph similar to the one below to illustrate that investing in stocks is better than real estate.

U.S. Housing vs. Stock Market Appreciation



Source: Observations (Observations And Notes.blogspot.com)

The critical problem here is that the above graph gives no credit for the income received over this period if you held real estate as rental property. When you use cash flow data plus appreciation of real estate vs. the stock market, stocks don't even come close. This point is even more true when you use leverage. There isn't another investment out there where you can borrow most of the money to buy an asset and then have that asset produce cash flow that you get to spend and use to pay off the debt, while making a significant spread on your financing.

For example, if you borrow $1 million at 3% and invest it in an apartment complex with a cap rate of 8%, you are making a 5% spread on your cost of capital. This would amount to $50,000 a year for simply borrowing money and investing it in a cash flowing asset such as multifamily real estate. Cash flow aside, real estate still does better than stocks during certain periods. The chart below illustrates the case for a recenttime period:

When you consider the actual cash flow of properties, stock investments don't stand a chance. Also worth considering are Warren Buffett's thoughts on real estate investing. Warren Buffett is arguably the world's greatest investor and stock picker who has ever lived. But even he wrote an exclusive article for Fortune magazine on his real estate investing.

Related: Buffet's annual letter: What you can learn from my real estate investments (http://fortune.com/2014/02/24/buetts-annual-letter-what-you-can-learn-from-my-real- estate-investments/)

"Annual distributions now exceed 35% of our initial equity investment. Moreover, our original mortgage was refinanced in 1996 and again in 1999, moves that allowed several special distributions totaling more than 150% of what we had invested. I've yet to view the property."

Eight Advantages of Real Estate vs. Stocks

1. Compounding Growth

If you made a 20% down payment, and the property value rises 5%, you make a gain of 25%. Although the bank owns 80% of your property, you receive all the gains, so the 5% rise in overall value is a 25% rise relative to your 20% down payment.

The best part is this is just in year one. The growth compounds significantly each year you have held a property for a certain amount of time. There isn't anything like this in the stock market.

2. Long-term Returns

Stock index funds can underperform inflation over certain time spans. These time spans can include several decades. Real estate has never underperformed inflation over a decade.

3. Taxes for Income

You get to deduct your mortgage interest and depreciate your property on your taxes. This can mean that you electively break even on your property, even if the rent doesn't cover the mortgage. The stock market does not have these advantages.

When you sell stocks, you'll pay 100% of long-term or short-term capital gains (short-term is when you sell a stock within one year). You'll pay short-term capital gains tax based on your ordinary income. And if you have a long-term gain, you'll pay approximately 15% tax.

With multifamily properties, you'll pay very little or even zero tax on profits. Here's why: There are two types of profits for multifamily investors, profits during the hold period (as long as you are the owner of the property), and profits from the sale of your property.

4. Taxes for Selling

When you sell a stock, you pay capital gains taxes. However , when you sell real estate, you can put the proceeds in a 1031 exchange, whereby you can defer paying the capital gains tax.

Therefore, buying another property within a certain time period helps you compound your growth faster since you have more funds. In America, there are two tax systems: one for the informed and one for the uninformed. Both are legal.

5. Inflation

If you get a fixed-rate mortgage, you have locked in your biggest expense for 30 years (or less depending on what type of mortgage you get). Thanks to rent increases, your cash flow profit margin should improve year after year.

Real estate investment is a hedge against inflation. The price of real assets increases in an inflationary environment, and there has been no precedent for the recent Fed easing cycle on the back of the COVID-19 related disruptions to the economy.

6. Leverage

You can buy stocks on margin. However, margin interest rates are substantially higher than interest rates for loans related to real estate investing. Additionally, margin loans can get called if your stocks fall below a certain level.

Real estate loans are only called if you stop making payments (generally speaking).

7. Digital vs. Real Safety and Less Volatility

Have you ever gotten that sinking feeling when you see a wild price fluctuation for a stock you hold? Perhaps earnings were reinstated or there was some unexpected news event. How about when your entire portfolio starts to precipitously decline in value, such as recently during the COVID-19 crisis, where markets collapsed by close to 50% in weeks.

The great thing about real estate is that it's not prone to wild price fluctuations based on human impulse and rapid-fire computer algorithms. It will not evaporate into thin air. Rather than just an electronic journal entry, real estate is a physical asset. People will always need a place to live and because of their unpredictable income stream, multifamily apartments are much safer and less volatile investments.

8. Tax Treatment

Selling stocks may result in a capital gains tax. When you sell your stocks, you may have to pay a capital gains tax. If you've held the stock for more than a year, however, you may qualify for taxes at a lower rate. Also, you may have to pay taxes on any stock dividends your portfolio paid out during the year.

Conclusion and the Case for Passive Real Estate

The advantage of being a passive investor in a syndication vs holding hard real estate is that your investment can be liquid. When you invest in a property as a passive investor, you're buying shares in a limited liability corporation (LLC) that holds the property. After the first 12 months of owning those shares, according to SEC regulations, you can sell those shares to anybody. It's not as easy as selling shares in the stock market, because you'll need to find buyers, and it also depends on whether the syndicator you work with will allow it (we allow it), however, your investment is liquid after 12 months.

As you can see, when you add up the leverage and tax benefits available from passive investing in multifamily properties, they far outweigh the any advantage gained from buying stocks. My personal experience is that over time, building wealth by investing in multifamily properties is much better and more sound than playing the stock market.

Be sure to sign up for our newsletter and investor portal here to keep up to date with any new opportunities we have coming to market , and our existing investments.

Section 2

COMPANY HISTORY

Company History

After spending his post law school career supporting Wall St. trading desks as line of business counsel, Michael Gilman, founder of Cross Mountain Capital, became acutely sensitive to the volatility and uncertainty inherent in the financial markets. Time and time again, he witnessed as events completely unthought of and outside of anyone's control upended seemingly sound, well-hedged strategies. Such events have included the financial crisis in 2008, the European debt crisis in 2010, and most recently COVID-19, where investors experienced the most unprecedented volatility in history.

After studying, working in and investing in the financial markets, Michael began to diversify and invest in cash-flowing real estate in 2010 and built a real estate portfolio that now approaches 60 units. Michael also ended up transitioning to the real estate field, to become the Head of Legal and Portfolio Management at EasyKnock, a single-family rental housing company with $200,000,000 in assets and growing. After observing that the thesis for real estate not only held sound but was strengthened during the COVID-19 crises and the Fed's unpreceded rounds of monetary easing and legislative fiscal stimulus, Michael decided to establish Cross Mountain Capital to accept and invest alongside like-minded investors as a real estate sponsor.

Section 3

COMPANY MISSION

Company Mission

Our mission at Cross Mountain Capital is to build long term wealth with our investors through passive investments in carefully vetted and underwritten multifamily properties. The name for Cross Mountain Capital came from both the symbolic notion of crossing mountains to find and put together the deals that can offer the preservation of capital and wealth accumulation, as well as Cross Mountain Capital's penchant to transact in markets that offer abundant outdoor and mountain activities, which anchor and route a population's health and economy. The name also derives from the fundamental notion of a wealth building journey that will get the investor to top mountain peaks.

Section 4

COMPANY FOUNDER

Company Founder

Michael Gilman

Cross Mountain Capital, Founder & Investment Principal

Michael is a seasoned investor in multifamily real estate and currently owns and operates over 60 units on the East Coast, soon to be expanding investments across the nation. He has averaged more than 20% annual cash on cash returns per year during the last five years.

After successfully building his real estate portfolio, Michael decided to establish Cross Mountain Capital in order to scale up with larger acquisitions by accepting investors, investing alongside them and acting as a real estate sponsor.

Michael is also an attorney and started his career at investment banks. He has previously worked as in-house counsel for Cantor Fitzgerald, Deutsche Bank and Bank of America and currently serves as Head of Legal and Portfolio Management at EasyKnock. At EasyKnock, Michael manages a portfolio of over $200 million in single family homes and advises on legal matters in a general counsel capacity. Michael holds a B.A. from Sarah Lawrence College and a J.D. from Brooklyn Law School.