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## Roseman: Bigger returns mean higher risk

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Tim Stuart wrote to the *Star* because he couldn't believe how low the interest rate was on his mother-in-law's guaranteed investment certificate.

She was getting 0.001 per cent on a variable-rate money market GIC at TD Canada Trust. That worked out to a paltry 19 cents in interest on an \$18,000 deposit after one year. "My initial reaction was that it must have been a computer error," he said.

It's not an error. The TD GIC can be cashed in full without penalty after the first 30 days, a feature that may appeal to his 93-year-old mother-in-law.

Investors who want better returns have to take more risk. And sometimes, they have to meet tests of income or assets in order to get into a higher-risk investment.

Let's look at an investment that is restricted to individuals with a high net worth. The Romspen Mortgage Investment Fund has a portfolio of about 100 commercial mortgages, worth \$486 million.

Its mortgages carry an average interest rate of 12.25 per cent. As a result, investors are well rewarded.

"Through disciplined and prudent investing, we have generated consistent returns of approximately 10 per cent annually for our investors," the Toronto-based manager, Romspen Investment Corp., says at its website.

This is not a mutual fund, available to anyone who wants to invest. It's open only to "accredited investors," as defined by the Ontario Securities Commission:

Someone whose income before taxes exceeded \$200,000 in each of the two most recent years and who reasonably expects the same net income in the current year.

An individual whose net income before taxes, combined with that of a spouse, exceeded \$300,000 in each of those years and who expects the same in the current year.

An individual who, alone or together with a spouse, owns financial assets with a realizable value of more than \$1 million before taxes and net of related debts.

An individual, who alone or together with a spouse, owns net assets worth more than \$5 million.

Accredited investors are deemed to be affluent and sophisticated enough to accept a higher level of risk. They may not get as much disclosure as they would with investments that are open to everyone.

Romspen doesn't have to provide a prospectus, as mutual funds do. But it has an extensive offering memorandum, posted at its website, <http://www.romspen.com/>.

Within its 74 pages, the offering memorandum has five pages on risks, ranging from "no market for the units" to "no guaranteed return" and "limited sources of borrowing."

Romspen's borrowers pay a high rate because they need an alternative to bank financing. They're looking for a quick turnaround to close a real estate deal or early-stage financing on a development before approaching a bank.

Romspen also lends to schools, churches and clubs – borrowers banks tend to avoid because of reputational risk if they have to foreclose – according to Wesley Roitman, a managing general partner.

The fund is sold directly to the public without intermediaries, such as stockbrokers. There are almost 2,000 investors, whose average investment is \$250,000 to \$300,000.

"Every time we distribute units, we ask people to sign a representation that they satisfy the tests," Roitman says.

As well, the fund must file annual reports with information on its investors to the OSC – which has the power to call investors and check that they meet the requirements.

Romspen is not exposed to U.S. subprime mortgages. Still, its quarterly distributions to investors fell to 21 cents last year from 24 to 25 cents in most previous quarters.

So, keep this example in mind next time you see an interest investment that boasts much higher rates than you get on a bank GIC.

It may be limited to accredited investors. And it may have more risk than you're prepared to handle.

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