Transparity

ILLUMINATING. EDUCATING. GUIDING.

לסוף מתעשר

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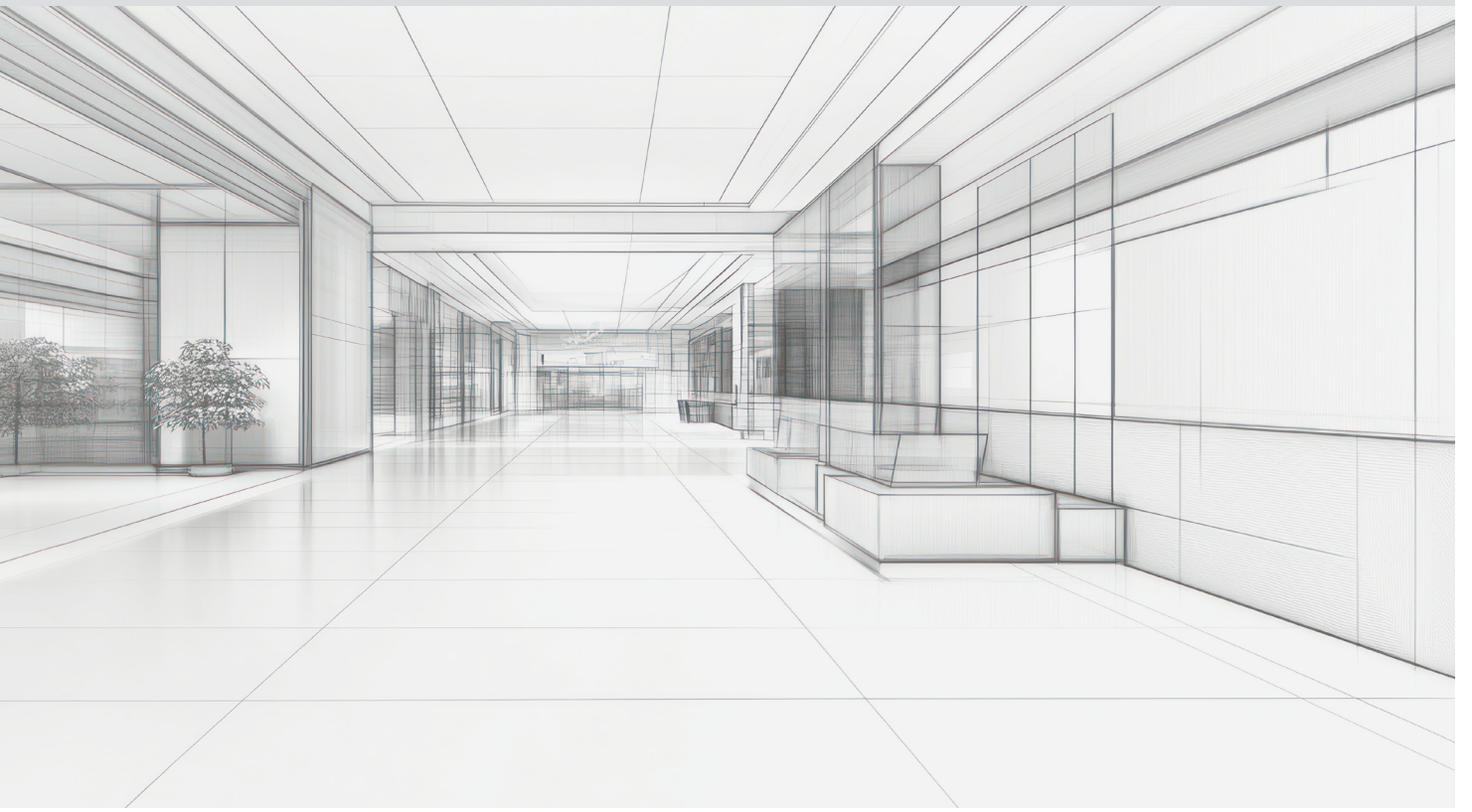
OUR MISSION

Empowering Smart Investing

TRANSPARITY IS DEDICATED to promoting transparency and clarity in investing, through awareness and education. Our goal is to protect our community from financial loss by empowering investors to make smart decisions with proper knowledge and impartial guidance.

כל אדם שיש בו דעה
לסוף מתעשר סנהדרין צב



SAFEGUARDING OUR COMMUNITY'S WEALTH

We've all heard about the many financial schemes that have unfortunately afflicted our community. Countless families have lost hard-earned money. Wedding funds. Retirement savings. Life insurance proceeds. Home down payments. Inheritances.

The list goes on and on — and the common denominator is poor investment choices. Many people have been misled by advisors who had a personal stake in the investments they recommended. Well-meaning friends may sometimes provide advice that is not informed or accurate, leading to misguided investment decisions. Many in our community feel lost, not knowing where to turn for a knowledgeable and unbiased opinion.

Collectively, our community has experienced losses of billions of dollars due to misplaced trust, ignorance, or biased information presented as innocent advice. The Torah is concerned for Klal Yisroel's money — shouldn't we be as well?

כי השחד יעור ... שמות כ"ג, ח

Illuminating.

Money can be blinding. Transparity's mission is to provide a place for people to turn to for impartial and experienced independent reviews before hard-earned money is entrusted to others for investments.

יהי ממון חברך **חביב עליך כשלך** אבות ב, יב

Educating.

Transparity assembled some of the most prestigious investment professionals, who until now were only accessible to high-paying investors. Now they are available to the novice who is looking to invest responsibly and be smart about their hard-earned money. Transparity's team of investment professionals are now available free of charge to provide impartial, well-informed, and independent reviews of investment opportunities. The Transparity Reviewers bring with them decades of experience with hundreds of deals and are prepared to share their knowledge. The Transparity Reviewers adhere to the Transparity Pledge, which can be found on our website.

הוי זהיר מן **היועצך לפי דרכו** סנהדרין עו

Beware of one who counsels you according to his own bias.

Guiding.

- Investors fill out an online form.
- A Transparity Reviewer will meet with the investor to review the investment opportunity and share their perspective.

POINTS TO PONDER

Questions To Ask Before You Invest

You'd never trust someone blindly with your religious standards, safety, or children's chinuch. So why would you trust blindly when it comes to managing your money? The Torah advises to apply the scrutiny you use in other areas to protect your assets. Before you seize an investment opportunity through an investee, ask yourself these questions.

1. Would you eat at a restaurant without a reliable hechsher?

You'd never eat at an establishment with a hashgacha you don't know and trust. And you wouldn't even walk into a restaurant with no hashgacha at all. Finances aren't always simple and straightforward. So why would you trust your money with someone who lacks oversight? There are significantly more issurim, michsholim and nisyonos in money matters than in kashrus.

עד אחד נאמן באיסורין (גיטין ב')

על פי שני עדים או על פי שלשה עדים יקום דבר (דברים יט:טו)

While a single witness may be trusted for matters of issur (such as kashrus), financial matters require the testimony of two witnesses.

2. Would a person undergo surgery without thorough research and strong credentials?

Every surgeon has graduated from medical school. Every surgeon has a license. Yet no one relies on those facts when faced with a medical procedure. No one would go under the knife without intensive research into a surgeon's practice and history. Investments can be relatively as risky, life-altering and detrimental to your health and well being. Why would you invest your money without rigorous due diligence and credible references?

צדיקים ממונם חביב עליהם יותר מגופם (סוטה יב)

The property of the righteous is dearer to them than their own bodies.

3. Would you allow your spouse or child to be secluded with someone of the opposite gender?

The principle of *yichud* highlights the importance of safety and oversight. You uphold it even with people you trust—and you know there's no such thing as too much precaution when it comes to personal safety. Investing can be tricky, and financial assets can be tempting. Why would you trust someone with your savings if there are no precautions in place?

רוב בגזל ומיעוט בעריות (בבא בתרא קסה)

A minority are suspect of immorality; most are suspect of some form of theft.

4. Would you board a plane if the pilot controls it remotely?

You'd be wary of placing your life in the hands of a pilot who isn't physically present. If his life isn't at stake with every decision, you can't be sure he'll take every possible precaution. Exercise the same caution with investing. Syndicators usually aren't in the same situation as the investors. They often make millions in fees and kickbacks before the investment even starts to generate returns, which could cloud their objectiveness. Ask yourself: would they make the same investment if they were in your place?

בי השוחד יעוור עיני חכמים – קל וחומר לטיפשים – ויסלף דברי צדיקים – קל וחומר לרשעים (כתובות ק"ה)

For money blinds the eyes of the wise, all the more so does it blind the eyes of the foolish; and it perverts the words of the righteous, all the more so does it pervert the words of the wicked.

5. Would you return a lost object to someone who claims to be the owner but has no proof?

The Torah instructs us to thoroughly check the legitimacy of the proper owner before returning it, even if it's worth only a small amount. Before returning an object, even of minimal value, one must confirm that the person claiming it is indeed its rightful owner. You wouldn't return anything without a valid סימן. When you entrust your own money, especially significant investments, ask for corroboration. Why would you trust someone who claims to be trustworthy with your hard-earned funds if they don't have solid evidence?

והיה עמך עד דרוש אחיך אותו – דרשהו אם רמאי הוא או אינו רמאי (בבא מציעא כ"ז)

One must determine if the claimant is trustworthy before returning an item, even if the item is small. Investigate to determine whether he is a deceiver or he is not a deceiver.

DON'T BE PASSIVE

If an investment opportunity seems far-fetched or vague, approach it with caution. Make sure that the syndicator's claims are backed by reliable evidence and not merely misleading or delusional promises.

The Torah is always our guiding light. It guides our major and minor decisions every day. Let it be your guiding principle when making investment decisions as well, ensuring that your hard-earned money is handled with integrity and wisdom.

SAGE ADVICE FOR INVESTMENTS

By Hagaon Harav Menachem Mendel Shafran, *shlit"a*

1. If you are told by the investee, "Do not tell this to anyone" or "This is top secret," run from the investment.

2. Any assurance of "guaranteed profits" or "risk free" – is at best imaginary.

3. Assurances of "big returns" are either fantasy or fraud. (Such returns only exist by Illicit deals, and for that they do not need you.)

4. Beware! Those who wish to lie usually present the proposal as being in a distant place. (In Birchas Hamazon the guest blesses the host that his property should be close to his home; i.e. proximity is a blessing, and distance is not.)

5. Investments offered in the print media with enticing advertisements or small ads are rated as extremely suspicious and almost certainly a scam.

6. If you discover a contradiction, flaw or coverup in the words of the person presenting the investment, or an expression along the lines that "you don't understand," you can rest assured that he is a swindler.

7. Never invest with a young person who is only in his twenties.

8. Even a well-known businessman who is suddenly offering investments most probably has encountered financial troubles and is taking advantage of his record and reputation.

9. Flee from a person who has a sudden meteoric rise and begins distributing huge sums to charity or starts driving a luxurious car.

10. If even one questionable person is involved in the investment, regardless of what manner, flee from it immediately. Do not think that you will profit along with him in the fraud, embezzlement, or theft, because he will end up stealing from you.

11. Any person who needs to include small investors like you is probably experiencing trouble in his finances.

12. Even if others have already profited from him, this is still "his deal" or his way of entangling others.

13. If there is an error in the text or the English grammar of the contract (even due to carelessness), you do not need any more proof (that it is a scam).

14. There is no investment without documentation. There are no oral agreements in business.

15. No contracts should be signed without your own trusted lawyer's approval. Do not rely on a lawyer that the syndicator suggests. Not all lawyers are experts to know what to check.

> חברך מית אשר
> איתעשר לא תאשר
>
> גיטין ל
>
> If you hear that your friend died, believe it, but if you hear that he became wealthy do not believe it.

16. Do not sign immediately; you must wait a few days, even if the syndicator tells you that the deal will slip away. At least you will remain with your money.

17. Do not invest in a deal that your spouse disapproves of.

18. If your Rabbi disapproves due to some reason, the reason does not have to be understood. The disapproval itself is reason enough to pass on the deal. (The Rabbi is not always at liberty to discuss the true reason for his disapproval. The same is with a professional.)

19. Stockbrokers (who play with or trade stocks) are to be avoided at every level.

20. People with "inside information" on a specific stock are ensnared in false beliefs, because if it is true, why do they need you?

21. Think if this is possible: From your investment, before the money reaches its destination, it goes through the agent and the sub-agent, and only a portion of your dollars end up being included in the actual investment. Consider that after the investment there are commissions, acquisition fees, taxes, management fees, operating costs, expenses, accounting and legal fees. How much of your money was actually invested in order for you to make this large profit that you were promised. Is this possible?

COMMON MYTHS

Regarding Real Estate Syndications

1. The Syndicator is very successful so their deals must be performing well.

Syndicators can be quite successful even if their deals perform poorly. For example, syndicators typically take "acquisition fees" at closing (usually in the 6 and sometimes 7 digits - from the Investors money) before the deal generates any profit. The Syndicator also typically earns income from "property management" and "Asset management" fees, which are not dependent on the deal's profits. The syndicators might also be getting "kickbacks" from various vendors that are being paid by the deal.

2. The Syndicators are putting up their own money in the deal (and also rolling in their acquisition fee) so they must feel it's a good deal.

Just because the Syndicator says he is investing in the deal doesn't mean he actually is (he may "change his mind" last minute). Additionally, it is possible that the Syndicator is making money from this deal "behind the scenes" which significantly outweighs the money he is putting back in the deal. For example, there may be an "internal flip", which means that when the Offering Memorandum says that the purchase price is, for example, $10MM, what's really happening is that the Syndicator purchased the property for example, for $6MM, and is now flipping it to the deal for $10MM, thus earning $4MM as the "seller".

3. The one who introduced me to the deal is very experienced and he feels it's a great deal.

The one who introduced you to the deal is very possibly getting paid a commission for bringing you into the deal (these individuals - referred to as "equity raisers" – often do this in an unofficial capacity, and so this arrangement may not be readily apparent to you). Accordingly, his "opinion" would be biased.

4. I know the one running the deal personally and fully trust him with my money so it is therefore safe to invest money in his deals.

Many times the individual who appears to be "running" the deal is just a front for the real syndicator. When a syndicator doesn't have enough of a reputation to attract investors, he may "partner up" with a better-known individual. It is possible, that the only thing this individual is doing is speaking to investors, and your money is being fully managed by someone with no reputation (or worse).

5. There are other experienced and savvy investors, investing in this deal so it must be a good deal.

Many times these experienced investors (because of their investment size or early commitment) are getting significantly better deal terms than you are. Just because it's a good deal for them does not mean it's a good deal for you.

6. The Syndicator told me he will personally guarantee my investment.

This oral commitment is not necessarily binding, and if the syndicator is indeed personally guaranteeing the investment, why isn't it in a written contract?

7. I went thru all the detailed financial information supplied to me by the Syndicator and see that it's a good deal, therefore it is safe to invest in the deal even though I don't know the integrity of the syndicator.

There are many ways that a syndicator could "spin" the numbers so that an unfavorable deal looks favorable. ("cherry picking" the comps or including artificial rent are some examples). The "numbers" are as good as the individual supplying the numbers.

8. I did my own independent due diligence on the deal and believe it's a good deal. Therefore, it is safe to invest in the deal even though I don't know the integrity of the syndicator.

Even if the deal is fundamentally good, there are numerous ways that a syndicator could potentially divert profits away from the investors. Receiving kickbacks, taking "loans" from the deal, unfavorable allocations on expenses shared with other properties they own, taking "leasing commissions", lending to the deal at high interest rates, are some examples. Investors typically don't have access to the deal's books and records, other than summarized financials, which can easily be manipulated to cover up such actions.

9. The Syndicator is a nice G-d fearing individuals and so there is no reason to suspect any wrongdoing.

Some of the conduct mentioned above, may be halachically permissible on the syndicators part (especially if the operating agreement grants them such rights), and therefore one can't assume that the syndicator won't take advantage of such rights.

Furthermore, even with regard to the practices that are not halachically permissible, the ones mentioned above are generally not perceived as outright theft. Even an otherwise, well-meaning individual, could (as a result of his bias) rationalize that such practices are fair and even beneficial to investors. Unfortunately, managing other people's money, with little or no outside oversight can present a temptation, which for some may be too hard to overcome.

עשירות לא שכיחא

גיטין ל

Wealth is uncommon

THE GLOSSY OFFERING MEMORANDUM

Is It Something I Can Trust?

Investing in real estate can be one of the most profitable ways to grow your wealth, but it can also be filled with risks—especially when relying solely on the words of a syndicator or equity broker. Though brokers and syndicators often present a polished picture of an investment opportunity, it's crucial to look beyond the glossy brochures and promises of high returns.

Consider this scenario: An equity broker approaches you and says, "I have an amazing retail center opportunity in Lakewood, NJ. It's the fastest growing municipality in New Jersey, has a wealthy demographic, many expanding businesses and housing is going up everywhere in town. The opportunity for growth is tremendous. The retail property is in the heart of the city – Clifton Avenue and Second Street to be exact, and I got it for a steal. I'll renovate it, rent it out for high prices, and it's going to be a huge success. It's prime real estate, in the heart of Lakewood. Would you like to invest?"

Now, if you're familiar with Second Street, you might pause. You know that the area has fallen into decline—filled with struggling businesses and an undesirable presence of homeless people. It's no longer the vibrant retail hub it once was. So you might respond, "Thanks, but I know Second Street, and it's not as promising as it sounds."

But the broker pushes back, saying, "A few blocks away at the Gourmet Glatt Plaza, and a few blocks the other way at the Avenue Shoppes (also known as the Marcy's Plaza), they're pulling in over $40 per square foot in rent! I'll make this even nicer than those properties! I'm offering you an amazing deal!"

No matter how the broker spins it, if you know the neighborhood well, you'll recognize that Second Street isn't comparable to Gourmet Glatt Plaza or the Avenue Shoppes, no matter how polished the offering may appear. You understand the local dynamics, the history, and the reality on the ground that the broker might be glossing over. And because you're familiar with the area, you can't be easily convinced to invest in a location that's in decline, even if it was once a promising spot or close to other successful centers.

Now let's explore another example. Imagine a syndicator or broker tells you about a property that is set to thrive because of an upcoming renovation project. But if you know that development has been stalled for years due to local opposition or permitting issues, you won't be convinced by their promises. Or if they point to nearby luxury developments to boost the investment's appeal, but you know those projects don't impact the specific block in question, you'll know better than to take their projections at face value.

Here's the takeaway:

when you're pitched an investment in a location you aren't familiar with, it's easy for the syndicator or equity broker to make it sound like the next big thing. They can cherry-pick examples of nearby successes, show off fancy graphs, and paint a rosy picture. But the truth is, if you don't have personal experience with the location, you might be led to believe anything they say. **This is why due diligence is critical.**

> התורה חסה על
> ממונם של ישראל
> ר"ה כז
> The Torah is concerned for the property of Klal Yisroel

When investing in real estate, it's crucial to do more than just trust the numbers on the glossy offering memorandum. Visit the property yourself if possible or consult with someone who understands the area intimately. Look into the past performance of the specific neighborhood, the current trends, and what kind of growth—if any—it's experiencing. **Simply relying on the word of an equity broker or syndicator can leave you investing in something that looks great on paper but in reality is far from ideal.**

At the end of the day, no matter how smooth the equity broker's pitch sounds, nobody knows a property like someone who really understands the area. Before diving into any investment, make sure you do your homework and get the full picture. Your savings are set aside. You're ready to invest. The question now is: am I making this choice based on solid facts or am I getting swayed by a flashy sales pitch?

WEIGHING YOUR OPTIONS: DEAL OR NO DEAL

REITs vs. Private Syndications

REITs (Real Estate Investment Trusts)

Think of REITs as a way to invest in real estate without actually owning the property itself. REITs are usually publicly traded companies that own numerous portfolios of diversified properties such as an apartment complex, office building, or shopping center. Similar to stocks, shares of the REIT are purchased and sold on the open market. It's an easy way to invest in real estate without the hassle of being a landlord.

Private Real Estate Syndications

Private real estate syndications, on the other hand, usually involve investing with a specific syndicator in a specific property or project. You'll likely join a smaller group of investors, and your money goes into a particular property like an apartment complex, office building or shopping center. This type of investment usually relies solely on the syndicator's capabilities and trustworthiness.

What's the difference?

Let's go over some of the key differences in simple terms:

- **LIQUIDITY** ***(how easily you can access your money)***

  REITs are easy to buy and sell, just like stocks. That means you can get your money out more quickly and efficiently by selling the shares at any time.

  In private real estate investments, your money is usually locked in for years, and getting it out early can be tough and subject to the syndicator's plans and control.

- **DIVERSIFICATION** ***(spreading out risk)***

  With REITs, your investment is spread across many different properties in different areas, which mitigates your risk.

  Private real estate investments usually focus on a single property or project, which can be riskier.

- **TRANSPARENCY & CONTROL**

  REITs are managed by professional teams that have government oversight and audits and are required to report regularly, so you'll always know how things are going.

  In private real estate investments, there is often little transparency regard-

ing dividends, earnings, and what happens behind the scenes. Financial reports can easily be manipulated given that there is no oversight or mandatory checks and balances.

- **RETURNS *(how much money you can earn)***

  REITs tend to offer steady returns through dividends. They're generally more consistent than private investments and don't use debt to cash out.

  Private investments have the potential for bigger payouts through debt refinancing, but they're riskier and not guaranteed.

- **TAX BENEFITS**

  REITs offer some tax perks. However, you'll still get taxed on your dividends.

  Private real estate investments might offer some tax breaks, but the paperwork (like K-1 forms) can be complicated and the syndicator must agree to allocate the tax benefits to the particular investor.

- **RISK**

  REITs are generally safer because they spread your money across multiple properties and are managed by professionals with strict oversight. There is little concern for misappropriation of funds or Ponzi schemes.

  Private real estate investments can potentially offer bigger returns but come with higher risks, especially if the investment doesn't go as planned. Historically, many have proven to be Ponzi schemes or other forms of deceit.

Which is right for you?

Both REITs and private real estate syndications present valuable opportunities to grow your wealth, but the best choice depends on your risk tolerance, investment goals, and liquidity needs. REITs provide a more liquid and diversified option with lower risk but potentially lower — yet consistent — returns. On the other hand, private syndications offer the potential chance for higher returns but come with inflated fees, lower liquidity, and increased risks of loss of capital invested.

In Conclusion

Both REITs and private real estate investments have their pros and cons. It really comes down to your individual situation, financial reality, economic goals, and how much risk you can afford to take.

Investors, carefully evaluate your options. Consider factors such as track record verification, conflicts of interest, and the specific terms and conditions of any investment. **Transparity** is here to help you navigate these complexities by providing independent reviews and insights into private investment opportunities, ensuring you have the information you need to make informed decisions.

WHO'S REALLY WINNING?

Critical Questions To Safeguard Your Investment

When you're presented with an investment opportunity in real estate, especially through a friend, acquaintance, chavrusah, family member, broker, or syndicator, it's crucial to pause and reflect. While these investments seem lucrative, there are many underlying factors that are often glossed over in the glossy presentations and enticing pitches. Let's break down some important points to consider before making any decisions.

Who's really living large?

Take a moment to look around. Who appears to be benefiting the most—investors or syndicators? The one giving the money or the one taking the money? Syndicators often flaunt big houses, luxury cars, and exotic vacations. While they may tell you that your investment will yield substantial returns, their wealth is often a direct result of the various fees and kickbacks they collect—not necessarily the success of the investments they manage.

Why isn't the syndicator investing their own money?

If the deal is truly as good as it sounds, why isn't the syndicator using their own money? This is a key question to ask. If a syndicator truly believes in the success of a project, you would expect them to invest their own funds. After all, if the returns are so promising, wouldn't they want to maximize their gains? The fact that they rely on other people's money may be a sign that the deal isn't as lucrative as it appears and that inflated fees are driving the deal.

Who's really investing in this deal?

If this deal is so attractive, why aren't other experienced real estate investors pursuing it? Most deals today are shared on public platforms and circulated to the entire industry. Perhaps they've already reviewed the deal and decided it wasn't worth the risk, leaving the deal for less experienced syndicators who then turn to less experienced or 'innocent' investors to fund the risky project.

Hidden fees: what you might not know

Did a friend, neighbor, or chavrusa introduce you to the investment? What you may not realize is that they likely are receiving a fee or commission for bringing you on board. Even if the investment doesn't perform well, they still get paid. Meanwhile, the syndicator often collects substantial fees—acquisition fees, markups, and kickbacks—before the project has even generated any returns for investors.

The reality of public vs. private investments

When considering real estate investments, it's worth comparing private syndications with public investment products. The S&P 500 and many mutual funds, for example,

have returned over 10% per year on average over a 10-year period. Publicly traded real estate investment trusts (REITs) have historically returned similar results annually and are regulated and audited. Unlike private syndications, which don't report data and have been susceptible to Ponzi schemes and fraud, REITs operate with mandatory oversight, making them a safer option for many investors.

Lack of supervision: the risks of unregulated investments

We understand the risks of an unfiltered internet, but what about the risks of unregulated investments? When syndicators handle other people's money without proper supervision, the temptation to engage in inappropriate or unethical behavior can increase. Without proper oversight, it's easier for things to go wrong behind the scenes, often to the detriment of investors.

Underperformance of investments

It's a common misconception that every real estate investment will meet or exceed its pro forma projections. In reality, many investments don't perform as well as initially promised. Investors may experience delayed dividends or even losses of their invested principal. This can be a rude awakening for those expecting guaranteed returns from their earnings and life's savings.

The role of third-party professionals

While third-party professionals like underwriters, appraisers, and financial reviewers are often involved in evaluating a deal, it's important to remember that these professionals are paid by the syndicator. Their goal is often to make the deal look attractive to investors, which can sometimes lead to biased or overly optimistic assessments.

The dangers of cash calls

Have you heard of a cash call? This occurs when a syndicator asks investors to contribute additional funds to a project. If investors can't or choose not to come up with the money, they risk losing their equity or having their ownership share diluted. Cash calls can create unexpected financial strain and are something to be cautious about. It's solely up to the syndicator to initiate a cash call. The investors have no say in the decision. A syndicator can use any excuse to raise additional cash. Excuses include—renovations, banking requirements, loan covenants, additional staffing, increased property tax, higher operating expenses, lower rental income, higher insurance premiums, capital expenses, increased vacancy, leaks, inclement weather, roof repairs, just to name a few.

Side agreements and unequal treatment

Syndicators may enter into side agreements with larger investors, giving them preferential treatment and leaving smaller investors with less favorable terms. This can mean the difference between A shares and B shares, where larger investors get a better deal while smaller investors bear more risk or receive lower returns.

In conclusion

Investing in real estate can be a powerful way to build wealth, but it comes with risks, especially when relying on syndicators who may not have your best interests at heart. Before committing to any deal, consider the points above and do your due diligence. Understand who is really benefiting from the investment, what the risks are, and whether or not the returns justify the potential downsides. By taking a thoughtful and informed approach you can better protect yourself and your financial future.

FROM WINDFALL TO WIPEOUT

Of Blind Trust and Lost Wealth

CASE STUDY #1

The Transparity Files

Case #288

Name: Chaim Kalisch*

Age: 36

Children: 6

Occupation: Rebbi

Investment Type: Real Estate

Money Invested: $800,000

Source of Investment: Advertisement

Time Frame before Investment Deteriorated:

6 months

Money Lost: $788,000

If you would meet me on the street, you would think I don't have an extra dollar to my name. And you would be right. But it wasn't always that way. I look back at my story with remorse and wonder at my naivete and the opportunity that slipped through my fingers almost as quickly as it had come.

Up until four years ago, I was the stereotypical *yungerman* trying to learn as much as I could while providing for my growing family of five. I was a fifth-grade rebbi in the morning and learned second seder in Kollel. Between my wife's secretary job, my extra tutoring at night, penny-pinching wherever we could, and my wife's find-great-deals-while-still-ensuring-our-kids-looked-great skills, we managed to get by each month financially. Just barely.

And then, in the middle of the hecticness of raising pre-teens and babies, my daughter was in a car accident. It was a grueling year of a delicate surgical procedure, post-op, and lengthy recovery, a year in which we wished for the boring "hecticness" of life "before the accident." Many people told me that I should sue the non-Jewish driver for his

negligence and the heartache he caused, but honestly, we were just trying to keep our heads above water. We were grateful that our daughter was making improvements and, between doctors' visits and therapies, the only other thing we could think about was ensuring that the other children were staying afloat.

About a year later, our daughter was baruch Hashem back in school, albeit with medical intervention that was still necessary. Life had finally, thankfully, settled into some sort of routine. It was at that time that I realized we really should sue. People had told us it would be a relatively "easy case," we could make a nice amount of money, and the person whose negligence had caused us this heartache should definitely pay.

I have no experience with lawyers, and I definitely didn't have an extra dime to pay for one, but someone referred me to a Mr. Jordan Steele, Esq.* Mr. Steele worked with a contingency fee arrangement and would take a percentage of whatever we would make on the deal. It took another few months, but one day I was holding a check of over $800,000 in my hands.

I remember discussing it with my wife that night at supper. She looked around at the ranch we were living in. The peeling walls, the flooring that had seen better days, the old kitchen we had promised we would one day replace. Yet my wife is always practical first. "I know Shloimy is only fourteen," she mused, "but before you know it, we'll be making weddings. I think we should put the money away."

I fully agreed. We had never needed luxuries and were used to living simply. "Since we're not going to be using the money for a while, maybe we should invest it," I leaned back thoughtfully. "How much of a percentage can we make on the money in the bank? It doesn't seem right to just leave it sitting there."

The next day, I was reading a local circular and an ad caught my eye. It was a simple ad, the type I would have never noticed before I had extra money. It asked for investors to invest in a property out west, promising a high monthly return. It said "serious inquiries only," and I was serious.

I reached out and listened to the details. It sounded very promising, and I debated how much money to put in. The investee told me the more I gave, the higher return my money would yield. He crunched the numbers with me, explaining that if I gave the full $800,000 my money would really grow. I asked for a reference, which the investee kindly provided.

The reference had only the most positive things to say, telling me that the investee was someone I could trust and had tremendous financial success. "That's why I invested in this same deal," he explained. I was sold. After signing a couple of documents that listed the prices of the real estate comps and how much they netted monthly, I proudly owned a percentage of an apartment building on the West Coast.

With the settlement and investment behind me, I could finally throw myself back into learning and

teaching. Every month, a percentage of the apartment rents were direct-deposited into my bank account. It was nice to know that the extra money wasn't just "sitting" and was actually growing. *So this is how people stay in learning for so many years.* Understanding finally dawned.

I went to an internet kiosk from time to time to check up on the monthly emails from my syndicator. The months passed by uneventfully with business letters full of jargon I didn't understand, but it didn't really matter. It felt good to be part of the leagues that "owned real estate."

About six months later, I was surprised to see a personal letter from the syndicator. Usually, his emails were business-like and very commercial, almost "copy-paste" from probably many of his deals, with graphs and Excel sheets attached. In this more personal email, he wrote that due to some "complications," he was considering backing out of the deal. If so, the money would be returned to us. He asked for patience while he figured things out and said he would get back to us in 90 days. At this point, the monthly payments would come to a halt.

Three months later there was another email, confirming that the investee had backed out and was slowly, painstakingly trying to pay everyone back. Apparently, a lot of money was lost when he pulled out, but it was for our benefit so that more money wouldn't be lost. I tried calling the investee, but his phone went straight to voicemail.

Instead, desperate to reach *someone*, I reached out to the reference I had spoken to who had extolled the investment's virtues. "What's going on with the deal we invested in?" I asked him. I needed some explanation.

"Our deal? What deal?" he asked. He then told me that he had no money in the deal anymore. He had originally invested but had second thoughts when something felt off, and the syndicator told him that if he gave good information to another potential investor, he would allow him to pull his money out and be refunded.

It was only at this point that the full extent of my sorry situation hit me like a punch in the gut. I had gone into this blindly, without thinking it through or understanding the details. Now that I heard the reference had been a friend and was "getting his money back" in order to give positive information, I realized I had been taken for a ride.

After a few more emails and apologies, promises that were not kept, and too much heartache to recount, the full situation became clear: we would not be getting our money back. I was sent a check of a measly $12,000. The rest of the funds were gone. Every single penny of it.

It is now a year later. If you would meet me on the street, you would think I don't have an extra dollar to my name. And you would be right. But it wasn't always that way…

A Transparity Reviewer Weighs In

When Rabbi Kalisch* walked into the Transparity office and told us his sorry tale, my heart went out to him. He was someone who never even dreamed he would have money to invest, and in a matter of a few months, the entire sum was gone, along with his trust in others. It was truly crushing and devastating.

At Transparity, our job is to review investment opportunities *before* the person goes through with the investment. This particular deal had many red flags—here are two of them:

1. ***References.*** Rabbi Kalisch was wise to ask for a reference before going ahead with the deal. Yet, in addition, it is crucial that there is some type of background check on the reference to ascertain that the information they are giving is accurate and unbiased. In this case, the reference had an ulterior motive: he was told that if he gave positive information, he would be able to pull out and retrieve his assets from the deal. The information he gave was not only biased, it was also false, as he later admitted that he himself was worried about the deal.

2. ***A Torah Lens.*** Chazal tell us that a person should divide his assets into three: a third into business, a third into property, and a third should remain as cash available for use. When someone comes to Transparity, we explain the importance of dividing money responsibly. In the case of someone living paycheck to paycheck, it is advisable to diversify their money accordingly and not put their entire savings into one deal.

על אחת כמה וכמה
שיהא אדם חס על נכסיו

ערכין כח

Proper due diligence is always necessary to protect one's possessions, and information from related sources should never be relied on.

THE CASH CALL CONUNDRUM

An Unexpected Turn

CASE STUDY #2

The Transparity Files

Case #266

Name: Dovid Katz* and Eli Greenberg*

Age: 46

Children: Dovid K: 8, Eli Greenberg: 5

Occupation: Dovid K:

Construction Firm and Eli G.: Clothing Store

Investment Type: Multi-family in North Carolina

Money Invested: $2MM

Source of Investment: Equity Broker

Time frame before Investment Deteriorated:

2 years

Money Lost: $2MM

"Ah…that was good." I closed my Gemara thoughtfully.

Eli took a sip from his coffee and nodded. "We're still three *blatt* behind, but *l'maaseh, Tosfos* asked my *kasha* and that's pretty cool."

"See you tomorrow, same time." I grab my Gemara and car keys from the table.

"Wait," Eli says, "Did I tell you about the Sam Fleischman deal?"

I cock my head. "Tell me more."

"A multi-family in North Carolina. Big stuff. High returns. Sam Fleischman has *mazel*, whatever he touches turns to gold. I'm thinking of putting in a million."

"Wow," I whistle. "That much?"

Eli shrugs. "What's the point in the money just sitting? It might as well be working for me. And we all know that real estate's the place. I'm hearing really solid stuff about it, I'm excited. Over seventy-five units, each rented out for $2,500 an apartment. It's a growing city, and there's a huge demand. Hey, maybe you wanna join? It's a really good opportunity."

I clip my keys onto my belt. "You know I'm not into taking risks…"

"This is *not* a risk. Okay, I'll admit, all investments are risks. But Fleischman has the goods. If you're gonna invest, go with him."

"I'm going to work, I have like sixty-five unread messages… but let's talk later. Maybe."

Eli and I have been inseparable since we were *chavrusas* in ninth grade. It's now twenty-one years and counting, and we still start our workdays learning at six am every morning. After that, I head to my office where I run a construction firm and Eli to his clothing store.

After some back and forth with Sam Fleischman's agent, I was in. Eli and I were investing together—each of us was putting one million dollars into the deal. I usually tend to be more cautious, but Eli hand-held me through the process until I was confident and actually excited to be part of this opportunity. We were explained the virtues of the multi-family in North Carolina—its location, the income potential, the ROI (return of investment), and economic trends. We went through the details together thoroughly; we are both seasoned businessmen and were happy with what we saw. This deal looked like it had excellent potential for growth.

For the first two years, everything went smoothly. We received steady monthly payments that suggested the property was thriving, and the monthly and quarterly updates were all very positive. And then, out of nowhere, we were hit with alarming news. An urgent email from Mr. Fleishman landed in our inboxes with a thud, demanding an additional $200,000 from each of us. Without this extra capital, our shares in the property would be diluted down to a mere 20%.

Eli was beside himself the next morning at our learning session. I kept asking really good questions, but he just couldn't concentrate. "I don't have the available funds to put in more money now," he explained when our *chavrusa shaft* was over. "But if we don't pay, we'll be left with only 20% of what we put in. And even worse—I can't believe I got you into this mess. If not for me, you would have never gone into this deal." His face was literally white. I had never seen him like this.

The pressure was intense. Both of our available cash was tied up in our businesses, and the thought of losing the $2 million that we had invested was frightening. We needed answers, and fast.

We reached out to an experienced investment reviewer, hoping he could help us make sense of the

situation. The reviewer immediately contacted the syndicator to request a detailed accounting of why the additional $200,000 was needed. The syndicator was evasive, trying to avoid providing a clear explanation.

The situation escalated when the reviewer enlisted the help of a lawyer to formally demand transparency. Through legal channels, it was uncovered that the syndicator's request for funds was not due to the property's performance but rather because he was facing a separate legal battle. Someone was trying to sue him, which could potentially ruin his business. The $200,000 was intended to raise capital to fend off this lawsuit, not to support the property.

The reviewer fought hard to protect our investment, and his persistence paid off; we did not need to come up with the extra money. Our property continued to perform well, and our investment remained intact—for the time being.

But then, we were hit with a hardball when it was time for our monthly return. The email from Mr. Fleischman was short and succinct

> *Unfortunately, some unexpected expenses have arisen this month that were necessary to address in order to maintain and preserve the long-term value of the property. These include additional repair work and increased maintenance costs that were unforeseen at the outset of our budgeting.*
>
> *As a result of these unexpected expenses, we will not be issuing monthly dividends this month. Please be assured that we are actively managing the situation, and we will do everything possible to ensure that this is a temporary pause. Our goal remains to stabilize the property and resume normal distributions as soon as possible.*

Eli and I were taken aback. For two years we had been getting monthly dividends, and now, specifically after this story, the returns were coming to a halt. Was it true that extra expenses had come up, or were we being "punished" for uncovering the unjustified cash call? We didn't know the answer to that. A few months passed without any monthly payments, though the letters still suggested the property was doing well.

Then, nearly five months later, a letter arrived. It was brief—but devastating. The property deal had collapsed. The bank had repossessed the building, and with it, every dollar we had invested was gone.

Eli and I share more than just a stake in a multi-family property down south. We've been through the emotional rollercoaster of watching our hard-earned savings slip away and gaining invaluable lessons about the complexities of real estate investing. But above all, the most meaningful thing we share is the learning we do together every morning—something more valuable than any investment we'll ever make.

Dovid and Eli had been caught in a cash call trap—a classic example of the hidden dangers that come with poorly managed investments. Here's what stood out:

1. Unjustified Cash Call: Despite the property performing well, the syndicator made an unexpected demand for more capital. This was a significant red flag. A legitimate, well-performing investment should not suddenly require additional funds without clear and reasonable justification. In this case, the syndicator's personal financial issues were driving the request, not the property's needs.

2. Lack of Transparency: Dovid and Eli's situation revealed another critical issue: a lack of transparency in the syndicator's motives. Many investors, like Dovid and Eli, don't realize that the money flow in these deals often goes both ways—between investors and syndicators. Here, the cash call wasn't about protecting the investment; it was about the syndicator covering his own financial mismanagement.

3. Due Diligence Overlooked: Their story highlights the importance of knowing who you're investing with and understanding the full scope of the deal. Investors must always scrutinize cash calls, demanding clear, detailed explanations and making sure they align with the property's actual performance. Transparency and rigorous due diligence are key to protecting your investment from these kinds of pitfalls.

WHEN TRUST FAILS

How I Lost Everything in a 'Can't-Miss' Investment

CASE STUDY #3

The Transparity Files

Case #265

Name: R' Shimon Farber

Age: 67

Children: 6

Occupation: Retired Yeshiva Administrator

Investment Type: Retail Center

Money Invested: $500,000

Source of Investment: Equity Broker / Word of Mouth

Time frame before Investment Deteriorated: 4 months

Money Lost: $475,500

Deteriorated: 10 months

I had no reason to suspect anything was wrong. The references were solid. The broker seemed to have all the right answers. How could I have known that I was on the brink of losing everything I had worked for?

For thirty years, I served as a dedicated administrator for Yeshiva Toras Chessed, trying to make ends meet while raising my family. It wasn't glamorous work, but it was honest, and I was doing what I loved in a Torah environment: helping *talmidim* grow and thrive. During this time, we lived simply, and I was able to save $250,000 during those decades of service. After years of scrimping and sacrificing, my wife and I even took out a home equity loan, pulling together another $250,000. It was a risky move, but I wanted to ensure that my family would be financially secure as we aged. That $500,000 felt like a lifeline.

Then came the opportunity. It all started with a conversation with my married son, who heard about a real estate deal in Alexandria, Virginia. He was full of excitement, telling me that someone he knew—a friend who had a reputation for finding promising investment properties—

was offering a share in a retail center in the heart of the city. "It's like Manhattan," my son said confidently. "You can't lose in a place like this."

I spoke to my son's friend directly and he sang the same tune. He described Alexandria as an up-and-coming city with a booming retail sector. The center was supposedly located in a bustling area with high-end tenants, and the investment promised a strong monthly return. I wasn't familiar with Alexandria at all, but the glowing endorsements impressed me.

I wanted to take my time, to think it over, but the broker pressed hard. He told me only a select few people were invited to be a part and if I didn't wire the money within 24 hours, he would have to move on to the next investor. The pressure was intense. Even though something inside me told me to slow down, I couldn't shake the fear of missing out on what seemed like a golden opportunity. I signed the contract in haste, still unsure about the specifics but trusting in the broker's reputation. After all, if my son vouched for him, that was enough for me.

At first, all seemed good. I received $3,500 monthly in returns, and I was happy that my nest egg was growing. But all too soon, the cracks began to show. After four months, the steady returns we had been promised started to dry up. The broker's tone changed from confident to apologetic. "We're having problems," he said. "The tenants aren't paying, so we can't pay you."

When I asked what had gone wrong, the broker blamed the neighborhood. It turned out that Alexandria wasn't the gold mine it was made out to be. The surrounding area was deteriorating, tenants were leaving, and the retail center could no longer cover its mortgage. The entire investment had been mismanaged from the start.

I later learned that the retail center wasn't even in a thriving part of Alexandria but in a neighborhood that had been in decline for years. The rental comps the broker had shown me were for properties in a completely different area—a more desirable part of town, miles away from the center I had invested in. None of this was explained to me when I signed the papers. I had blindly followed the broker's assurances without doing my own research, trusting in his expertise instead of questioning the details.

When I reached out to the broker for answers, I was met with vague excuses. "It's just a tough market right now," he said. "We're doing our best, but there's no guarantee in real estate."

WHEN TRUST FAILS Cont.

That was the last time I heard from him. Soon after, the bank foreclosed on the property, and I was left with nothing but a few scattered payments and a check for $14,000—less than three percent of my total investment.

And now? Now I'm selling my house to repay the home equity loan, and I'm searching for a cheaper place to live, much farther from my children than I ever wanted to be. When it came time to host my married children for Pesach, it's hard to even admit this… but I had to turn to a local organization for assistance with the food. It was demoralizing; in all my years as an administrator (when I was being paid a paltry salary) I'd never had to ask anyone for help. My wife and I are in our sixties, facing the brutal reality that we must look for new jobs at a time when most people are winding down. We believed we were securing our future, but instead, we found ourselves rebuilding our lives from the ground up.

**All case studies are true, yet names and identifying details have been changed.*

A Transparity Reviewer Weighs In

When Rabbi Farber* walked into the Transparity office and told us his story, it was clear that the root of the issue lay in trust—trust in the wrong people and the wrong process. Rabbi Farber was pressured into making a decision without fully understanding the neighborhood or the investment itself. Here are some red flags:

1. ***Pressure to Sign:*** Rabbi Farber was pressured to sign the contract within 24 hours. This kind of pressure is often a tactic to prevent investors from taking the time to think critically about the deal. Had he waited, he might have done due diligence and seen that the neighborhood was not as promising as the broker had claimed.

2. ***Lack of Understanding of the Location:*** Rabbi Farber blindly followed the broker's referral without fully understanding the nuances of Alexandria, Virginia. Real estate is local, and understanding the specific neighborhood is crucial. In this case, the retail center was in a declining area, far from the vibrant part of the city that had been presented.

3. ***Middlemen Misrepresenting Facts:*** The equity broker acted as a friendly middleman, never explicitly mentioning that he would make money off the deal. Instead, he positioned himself as someone simply helping Rabbi Farber by "showing him the deal." This deception kept the broker's true motives hidden and gave Rabbi Farber a false sense of security. This underscores the danger of trusting middlemen who present themselves as friends or protectors but are really earning fees by pushing risky deals onto unsuspecting investors.

BEST PRACTICES FOR

Real Estate Syndication Deals

The Ideal Operating Agreement should contain the following provisions

1. Fees Addendum

No Fees should be tucked into the OA. The OA should clearly state that there are NO FEES except the ones reflected on the Fees Addendum. All fees should be clearly displayed and transparent on the addendum.

2. Due Diligence

The due diligence process should be conducted objectively. This includes properly evaluating the investment's risk profile, weighing the pros and cons, assessing the potential upside and downside, and presenting the findings transparently — ideally through an unbiased third party.

3. Closing Statement

True and accurate closing statements should be circulated to all Investors the day of the closing.

4. Arm's Length Transaction

Disclosure that this purchase is an arm's length purchase, meaning there exists no prior affiliation between the seller and the buyer, it's not an internal flip, and there is no increase in basis from the seller's purchase price. If one of the above scenarios is indeed occurring, the amounts should be disclosed and clearly detailed in writing.

5. Access to Books & Records

The Investor or their representatives should have the right to access all relevant financial books, records, ledgers, statements, software, and finance employees.

6. Ownership

The company should have only 100 equal shares and all shareholders should be treated equally for distributions or cash calls.

7. Audit

Any Investor should have the right to request an audit of the company's books and records at their own expense.

8. Ownership Split

70% to Investors and 30% to Syndicators seems to be industry standard, and a deviation from the ordinary should be reflected on the addendum.

9. Reporting

Standardized reporting should be in the OA and the intervals monthly, quarterly, or annually.

10. Comingling of Funds

There should be no commingling of funds from different properties or different companies.

11. Crisscrossing of Deals

There should be no cross investing, cross-collateralizing, or cross lending from one company or property to another, especially when charging or incurring interest at the expense of Investors.

12. Kickbacks

There should be no kickbacks from brokers or vendors, as it leads to decision- making that's not in the best interests and is at the expense of the company and the Investors.

13. Capital Expense Accounts

Separate Capital Expense accounts should be maintained and accurate reports shared with the Investors.

14. Exit or Sale

Upon a sale, the Syndicator must disclose if there is a prior relationship to the new buyer and if they are remaining in the deal for future benefit.

15. Addendums should include:

- Fees Addendum
- Key Terms Summary
- Syndicator Disclosure Form
- Investor Acknowledgment Form
- Negotiated Terms specific for this deal

Transparity

ILLUMINATING. EDUCATING. GUIDING.

Promoting responsible investing with transparency and clarity as our guiding principles.

PLEASE NOTE: Transparity is a free community service that provides awareness and guidance on responsible investing. Transparity does not offer investment opportunities or financial services, nor does it provide financial or legal advice. Transparity offers experienced professionals in the relevant industry who provide an unbiased viewpoint on the potential risks and rewards of an investment opportunity under consideration. The Transparity Review is limited to the information presented by the potential investor.

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