PeerStreet Performance After One Year

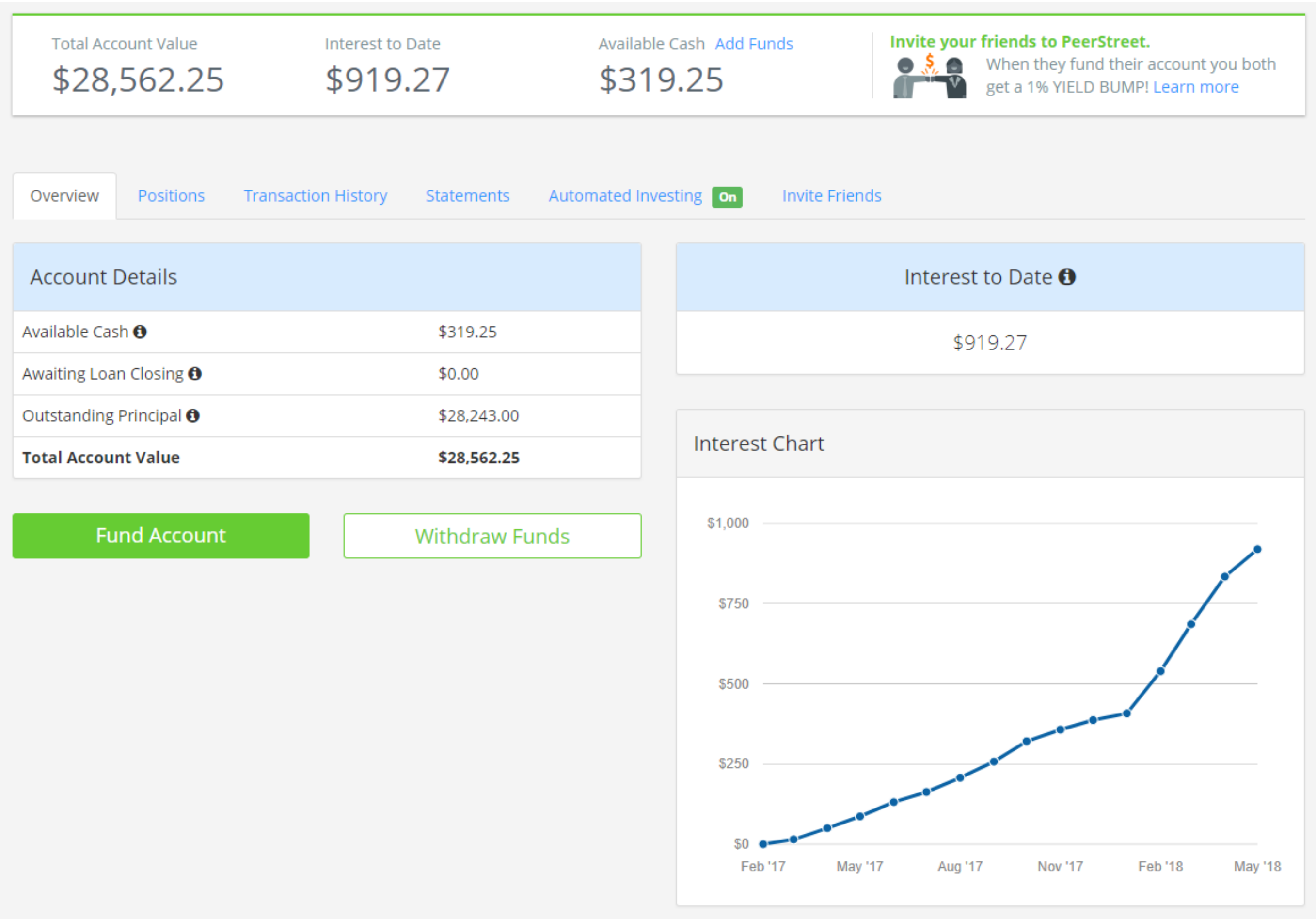
Here on GYFG, transparency is the name of the game. I put my money where my ~~mouth~~ blog is, and show you everything: both what works and what does not. Today it is time to check under the hood of my own PeerStreet experience, and let you know how it's going. To recap, it's been a year since I started investing in hard money loans through the PeerStreet platform. Within five months, I built up my initial $5,000 seed investment to $73,000 and in early 2018 I topped my total account value off to make an even $100,000. As I write, the current value of my total investment (across two accounts) is ~$103,000. I want to show you the actual Peer Street dashboards, so you get a feel for them, too.

PeerStreet is right on schedule as per expectation, and doing great in my portfolio. I'm very pleased. Which is to say that I'm in the boring phase of the investment, which should be the eventual goal of every investment you make, too! I'm always after a "set it and forget it mode" in my investments. After I have spent a huge amount of time vetting them, and doing my deep dive before committing even a single dollar, I then *want* some boredom on my part, and to step back to let time, compounding and automation do their thang. I did my work, now all my little $oldiers need to do theirs! A well-vetted investment that's working as it should? Yes, please – that lets me get back out there to generate more capital!

So let's check on the steak, and not the sizzle – how is this investment performing?

I have two separate accounts with PeerStreet: an after-tax account with about $29,000 (Account #1), and a self-directed IRA with about $74,000 (Account #2). Since 99% of my money in the self-directed IRA has been invested for about a year, that's where I'm going to take the deepest dive today, and spend most of this post. That's enough time to get a true read on PS overall. As with all "audits" of my investments, I'm looking at actual performance vs. expected performance. (Over five to ten years, not just this one year, I expect this asset class to deliver a pre-tax yield of 8%). But first, I will take a look at Account #1:

Account #1 (After-Tax Account)



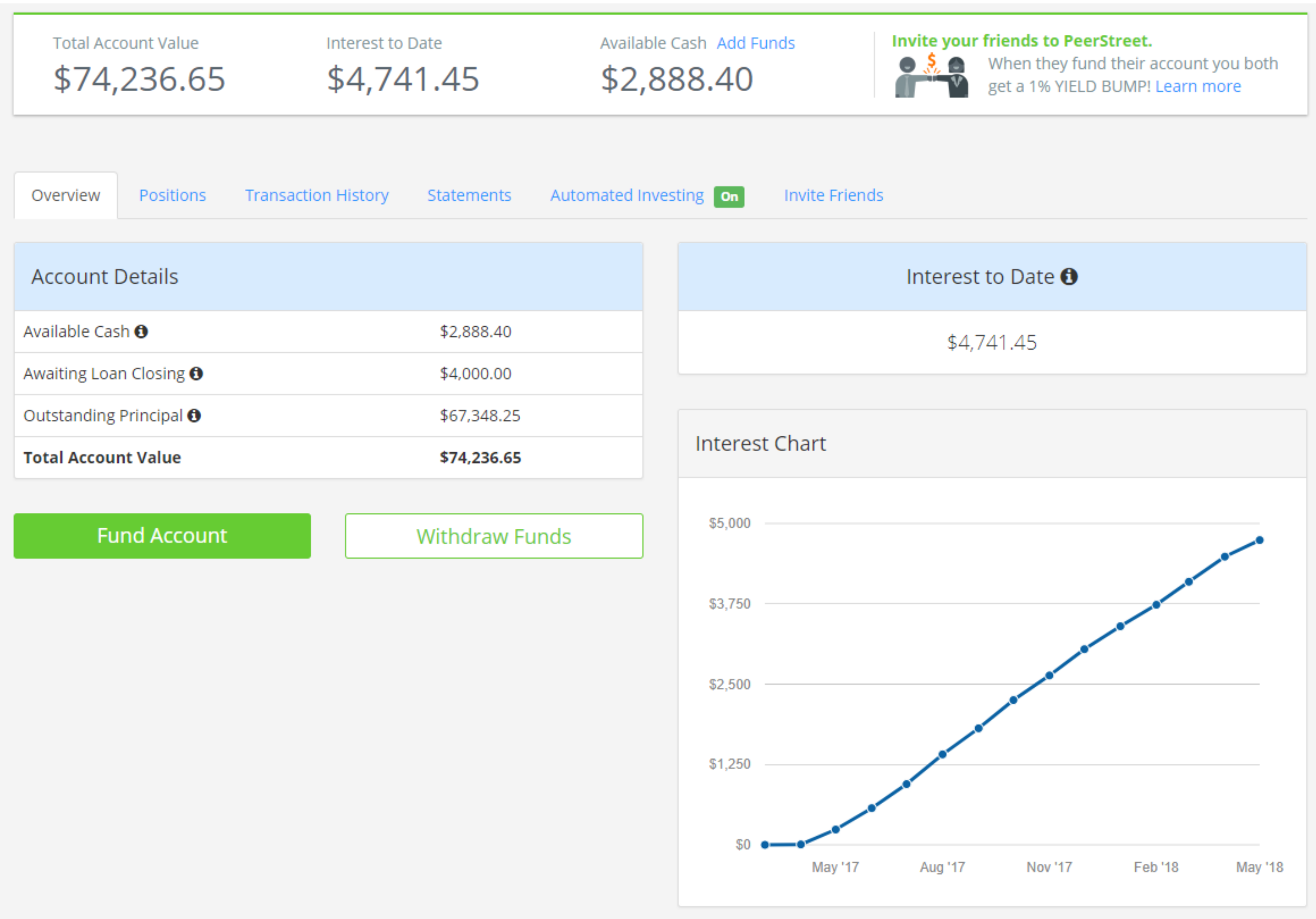
In February 2017 I started this account with about $7,000. It wasn't until late December 2017 that I added an additional $4,000 of investment capital. Then, in January 2018 I added another $18,000, which is why on the interest chart above you see it increased significantly. The reasoning behind keeping this particular account smaller than the pre-tax account was twofold:

(1) I was in the process of setting up a self-directed IRA (Account #2) with ~$70,000 from an old roll-over IRA, which I knew would represent the lion's share of my PS commitment.

(2) The other consideration was the fact that any gains in the after-tax account would be taxed as ordinary income. Realizing that the GYFG household would be moving into a marginal tax rate somewhere in the neighborhood of 37%-42% based on our 2018 projected income, the after-tax returns would be between 4.5% and 5.04% – assuming an 8% yield.

The real reason I increased the investment in this account at all was simply to round off the investment to $100,000 as part of my stated goals for 2018. Additional pre-tax contributions were not an option. Since most of the capital in this account was contributed only over the last five months and because I had taken some withdrawals earlier on (I wasn't sure if I wanted to maintain two separate accounts), it's more complicated than Account #2, so I think it's best to focus on the second account.

Account #2 (Pre-Tax Account)



This account funded on March 27th, 2017 with about $50,000 initially. I wasn't sure how long it was going to take to deploy this much money because PeerStreet was still working on balancing supply and demand, which is why I waited to move the remaining $20,000 from the rollover IRA until a month later (on May 24th, 2017). It took about three weeks for the initial $50,000 to become fully invested at $2,000 per loan. The next $20,000 was fully invested within about two weeks of funding.

Now with $69,495.20 (the exact investment amount) spread across 35 loans, it was time to sit back and collect interest payments. After about one full year, as you can see from the above screenshot, this account has collected $4,741.45 in interest payments. I'm writing this on May 6th, 2018, so keep in mind that not all the money has had a full year of interest yet, while some of the money has been invested for a little over one year. So far this account has earned a yield of 6.8% to date.

I am a little disappointed that the PeerStreet platform does not calculate your time-weighted return for you. Believe it or not, I don't feel like it's worth the time to work through the math myself and would guess my time-weighted return is somewhere around 7%. This has fallen short of my overall 8% goal in the long-term but it has also only been one year. I believe this has happened for several reasons:

> (1) There is a drag on returns caused by the amount of time it takes for available cash to be invested or reinvested. Not as big of an issue now, but in the first half of the year, supply was not as abundant as it is now. Free cash would have to sit on the sidelines – earning 0% – waiting for new investments to become available.
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> (2) There is a drag on returns due to the delay in the time between investment and funding the loan. It might take a couple of days between your investment and when the loan is actually funded. You don't start accruing interest until the loan is funded.
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> (3) There is also drag created by the minimum investment of $1,000. You may have every intention to reinvest all of your monthly earnings but if the available cash is less than $1,000 you will have to wait for additional interest payments until you can invest the minimum $1,000.
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> (4) The allocation process at PeerStreet is also a variable that can create a drag on your return. Let's say you have set up automated investing with a $2,000 desired investment amount per loan. A new loan may become available, but you may only get a portion or none of that loan based on your place in line to get a piece of the allocation. More detail from PeerStreet:
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> > *Our allocation system is designed to help investors get into the type of investments they want through two methods: Automated Investing and*

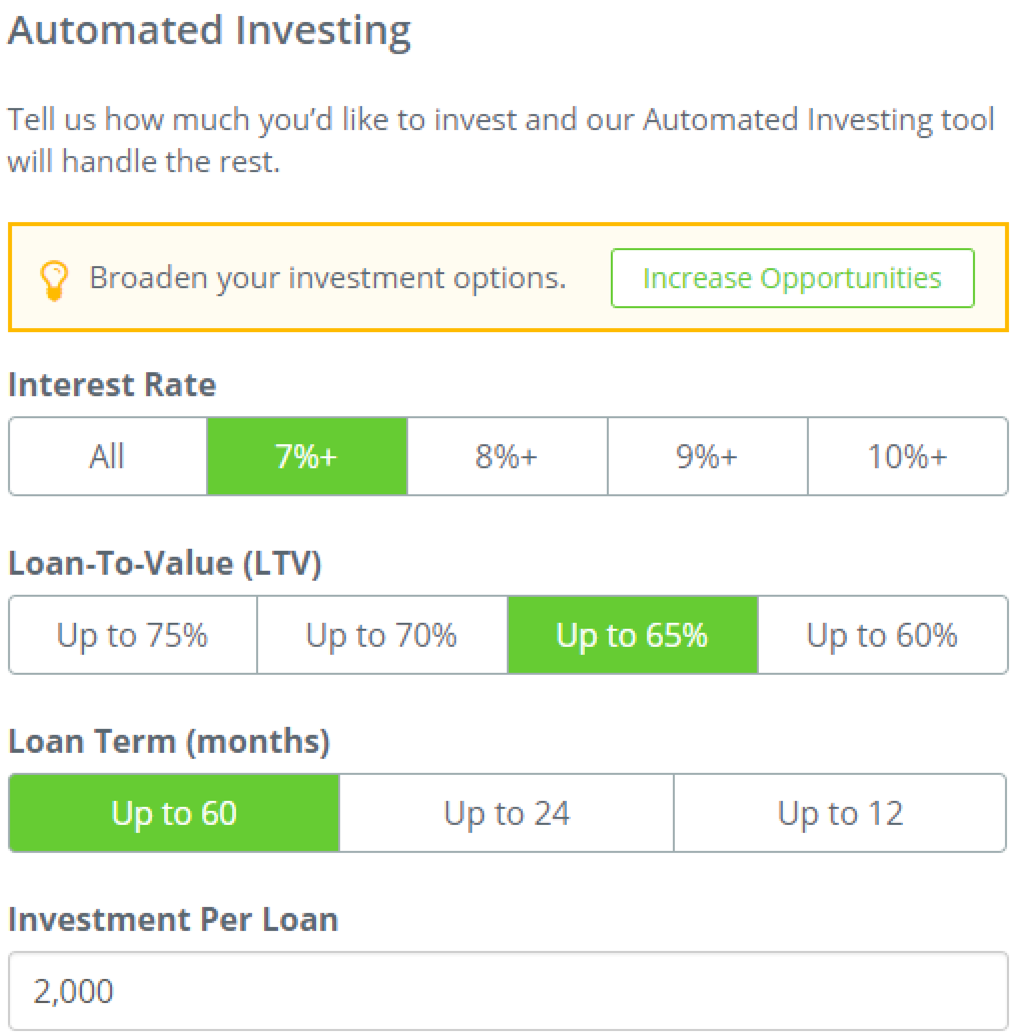
manual investing. A portion of each loan is made available for manual investing, making space available for investors who prefer hand-selecting loans.

Everyone enrolled in Automated Investing will be put in a line. If a loan comes up that matches your criteria, and it's your turn in the queue, you will get placed into that loan. For clarification, you will either be allocated into *your specified investment maximum or, if there's not that much of a loan available, any balance greater than $1,000.*

If there are more automated orders than availability in a loan then it is considered "oversubscribed." Any individuals who receive an allocation to an oversubscribed loan will be placed at the back of the line. If you do not receive an allocation or if the loan is not oversubscribed, you will not lose your spot in line.

(5) Loans that are late with making interest payments create a drag on your return. I currently have four loans that are late 30 days, two loans that are late 60 days, and one loan that is late 90+ days in this particular account. BTW, this isn't uncommon to have late payments from hard money loans.

(6) Your investment criteria can create a drag on your return. This is true whether you manually hand-select loans or have automatic investing turned on. If you set the bar "too high" it will take longer to invest free cash, which means you're earning 0% while you wait for investments that meet your criteria. Here is a look at my current criteria:



The only difference between this Account #2 and the after-tax account is that in Account #1 I only invest in loans with durations of up to 24 months. As supply has increased I have tightened my criteria to loans with a max LTV of 65%. This seems to be the right mix of risk mitigation and optimal yield, with minimal drag. I would like to move my LTV up to 60%, but I'm fearful that this would create too much drag on the account, with much less opportunity to remain fully invested.

(7) Defaults are the last major piece – that I can think of now – that create a drag on your return. I currently have one loan in this account that is in default. Let me stress that just because a loan is in "technical default" doesn't necessarily mean there are losses on the horizon.

Concluding Thoughts

Overall I’m good with the performance of this asset class to date, but I also think it is far too early to draw any long-term conclusions. I’m also not all that surprised that my account has yielded about 7% for the first account, especially since my automatic investment criteria has set 7% as the minimum rate I’m willing to accept (12 of my active loans are yielding 7%, with the others yielding something north of this).

I have noticed that a good percentage of the loans get paid off early, meaning that if the original duration was supposed to be ten months, it might actually get paid back in seven months.

I do want to reach out to the PeerStreet team to request the following enhancements:

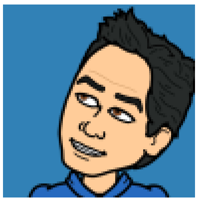
> (1) The ability to allow the auto investment feature to invest amounts smaller than $1,000 in order to reduce the drag on performance from cash sitting on the sidelines.
>
> (2) Additional metrics added to the dashboard that show the following: time-weighted return, weighted average LTV, and weighted average return of current mix. Or even the ability to easily export all of your positions so that you can do the math yourself in a simple Excel template.
>
> (3) It would also be nice to be able to have visibility into accrued but unpaid interest. As I mentioned above, I have six loans that are late with interest payments, and one that is in default. I anticipate I will get paid on those eventually, but don’t want to have to go and manually do the math.

It will be interesting to see what happens to yields as interest rates continue to increase, which to date doesn’t seem to have had an effect, probably due to the demand outstripping supply. It will also be interesting to see how this asset class performs during the next recession. Knock on wood, but there still have yet to be any losses to investors due to defaults (and thats over $1 Billion in loans funded). I attribute this to the equity cushion built into this asset class, which is a minimum 25% of downside protection. This means if a loan has a LTV of 75%, the value of the property would have to fall 25% before investor money is ever at risk of loss. In my case my average LTV is running south of 65%, so my equity cushion is 35%+.

There you go – PeerStreet is performing right on schedule as expected. As I said to begin with, it's boring, which translates to, it's great! Naturally, I will keep my eye on this allocation of my portfolio, but for all my analysis currently, it is full steam ahead PeerStreet.

Your turn! *Are you investing through the PeerStreet platform (this site gets a little commission if you use my link)? What enhancements would you like to see? Let me know and I will share the feedback with the PeerStreet team. Can you think of any other forms of drag I may have missed? What other thoughts do you have?*

– Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own financial stats. I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! Read More