

Cruise Ships and Speedboats

A View of REIT Investing

When comparing REIT stocks to non-REIT stocks, we believe a useful analogy is to compare cruise ships to speedboats. Think of a REIT stock as a 100,000-ton ocean liner and a non-REIT stock as a speedboat. The ocean liner holds a steady course and its passengers can rely on it to eventually get to their destination.* However, in the rare instance a cruise ship does go off course, it takes an extraordinary effort to get it back on course. Nevertheless, in turbulent waters, an ocean liner is much safer than the small boats.

In contrast, speedboats are fast and nimble. Speedboats can get their passengers to their destination much quicker, and, although they deviate from their course frequently, they can get right back on course. However, given their high rate of speed, there is a much greater possibility of an accident. Furthermore, in rough seas, speedboats can more easily sink.

Within the REIT industry, there are some cruise ships that are faster than others. When choosing investments, we carefully evaluate the possible risks and potential returns of the slow ships and the fast ships. Also, we sometimes evaluate cruise ships that have gone astray to determine whether the captain and crew are capable of bringing the ship back on course.

* This analogy can be taken even further. The huge buffet on a cruise ship is like a REIT's relatively large dividend, whereas nobody rides a speedboat for the on-board meals.