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Forensic Investing, **Risk Management** *& Real Estate.*

Clearmark Partners' George Koo Identifies Opportunities Deep in the Details

BY CAROLE VANSICKLE ELLIS
PHOTOS BY ROB TANNENBAUM

"MY INVESTMENT STYLE IS TO MAKE SURE THAT I INVESTIGATE ALL THESE INVESTMENT OPPORTUNITIES ON BEHALF OF MY INVESTORS AND MAKE SURE THAT I DO ALL OF MY DUE DILIGENCE AS THOROUGHLY AS POSSIBLE"

GEORGE KOO
CEO/CIO, CLEARMARK PARTNERS

YOU MIGHT EXPECT GEORGE KOO, CEO/CIO of specialized investment manager Clearmark Partners, to spend a lot of his time looking at the "big picture" when he evaluates investments. After all, his company manages hundreds of millions of dollars for individual and institutional "ultra-high net worth" investors, which means, by definition, these entities may be investing at least $30 million outside of their personal assets and property.

Spend a few minutes talking investment strategy with Koo, however, and you will soon find his attention is definitely on the details. Those details include those that only show up under the lens of what Koo refers to as his "forensic work," which extends far beyond forensic accounting, a fairly traditional concept, and into the concepts of machine learning, artificial intelligence, groundbreaking technology, and a deep understanding of the intricate ways in which politics, policy, and real estate interact on a micro- and macro scale.

"My investment style is to make sure that I investigate all these investment opportunities on behalf of my investors and make sure that I do all of my due diligence as thoroughly as possible," Koo said. "Most importantly, I want to help them manage their risk and make sure they are not risking themselves or their principal investment dollars." Interestingly, Koo places importance on investors' principles as well as their principal, which has created a unique place for him in the industry and also places him in a unique analytic position when it comes to the practical effects of politics and policy on an investment portfolio. This principled approach to investing is focused on client needs and prudent risk-management, he noted.

Thanks to a diverse background (see right for a partial list of Koo's credentials) in finance, international relations, and accounting alonside his current pursuit of a PhD in Quantitative Finance and Technology, Koo is well placed to advise and strategize in all investment sectors, including real estate.

PROFESSIONAL PROFILE: GEORGE KOO

Academic Background:

- PhD in Quantitative Finance & Technology: Virginia Tech (in process)
- Master of Liberal Arts in International Realations: Harvard University
- Chartered Financial Analyst
- Certified Public Accountant
- MBA and BS in Finance and Accounting, respectively: St. John's University

Professional Positions & Experience:

CEO & Chief Investment Officer (CIO), Clearmark Partners LLC
2009-PRESENT
Clearmark Partners specializes in investment management for institutions and wealth-management services for ultra-high net worth individuals. The company currently manages around $500 million.

Managing Partner, Hillcrest Capital Advisors, LLC
2000-2009
Provided investment consulting services specializing in distressed securities, turnarounds, and restructuring at the height of the financial crisis.

Head of Research, Investment Banker & CFO, Dalman Rose & Co.
2003-2007
Structured more than $3 billion in initial public offerings, secondary offerings, and private placements for the marine shipping and energy industries.

CEO & President, Digital Systems Group
2000-2002
Successful turnaround of a bank-foreclosed information technology services company between 2000 and 2002.

Investment Banker, Burnham Securities, Inc.
1993-2000
Specialized in turnarounds, restructurings, bankruptcies, and distressed situations and conducted special situations research.

Vice President & Portfolio Manager, Chase Manhattan Bank
1985-1992
Managed $3 billion in fixed-income/ mortgage-backed securities portfolios. Played a role in pioneering the process of investing in mortgage-backed securities, including developing algorithms for distribution of cash flow to investors.

Learn more about George Koo and Clearmark Partners at ClearmarkPartners.com

> **"BLOCKCHAIN ITSELF, NOT BITCOIN, WILL LIKELY HAVE AN ENORMOUS IMPACT ON THE FUTURE OF THE FINANCIAL INDUSTRY AND THE REAL ESTATE INDUSTRY… [INCLUDING] SIGNIFICANT IMPLICATIONS FOR EVERYTHING FROM CREDIT TO LEASING TO CHAINS OF TITLE."**

Thanks to Koo's fascination with the details, he is also well-positioned to comment on investment and economic trends that affect all investors operating on all levels of scale. For this issue of *Think Realty Magazine*, Koo divulged the details of his ultra-high net worth process, from identifying the long-lasting ramifications of cryptocurrency on the real estate industry to evaluating how this November's elections could affect your real estate strategies on a regional basis.

AI and Cryptocurrency Bring Endless Opportunity to Real Estate

Artificial intelligence (AI) and cryptocurrency have certainly been two of the most prevalent topics in the headlines across many industries in 2018. The intensely complicated subject matter in both areas not only positions them for great advances; it also creates a perilous situation for investors seeking to take advantage of early adoption without full knowledge of what the future holds.

"Investors at every level absolutely must recognize that cryptocurrencies are, at this point, a totally digital asset," Koo stated. "It is nothing more than a digital file, not much more different than an encrypted email message file. And that makes its perceived value extremely volatile. Most importantly, cryptocurrencies cannot be easily spent. It's very difficult to figure out the true value of a bitcoin (or any cryptocurrency), for example, at any given point in time."

He feels similarly cautious about many of the more advanced machine-learning technologies beginning to appear in the market and noted that although he might use a computer to help identify investment opportunities, he would never sacrifice the human element of control in any aspect of investing, be that stocks, bonds, or real estate investments.

"Sure, my goal is to be able to take my brain and put it inside a computer so it can evaluate investments similarly to the way I would," he laughed, but continued, "I would never let a computer operate a trading mechanism. You have to make sure you have some level of human intervention between the mathematical models the machines are learning and the implementation."

This approach is particularly relevant to real estate investing, a sector which has proved much harder to automate than the more mechanical processes of buying and selling stocks or bonds. For Koo, this is a good thing. "I don't want the AI engine to trade without intervention ever, in any investment category, because human judgement should always still prevail," he explained.

To Koo, rather than being enamored with any one cryptocurrency or algorithmic process in investing, the bigger story (incidentally, hidden in the details) is the opportunity represented by blockchain technology (see sidebar at right).

"Blockchain itself, not Bitcoin, will likely have an enormous impact on the future of the financial industry and the real estate industry," he said. "Blockchain is fast, transparent, and low-cost. It can authenticate transactions and secure them as it crisscrosses the internet, which could have significant implications for everything from credit to leasing to chains of title."

Koo noted many companies will likely not refer to their version of the technology as blockchain. "The code itself is open source, so a lot of companies will download it and then employ the technology within their security frameworks. I would say by next year, you will see more secure systems thanks to derivative blockchain integration. They may not even refer to it as blockchain because the name is getting a negative connotation from its public association with cryptocurrencies." This increased security will benefit real estate investors in a number of ways ranging from increased transactional security to better privacy and control over Internet of Things tools, such as electronic locks, used in rental management processes. "One good thing to come out of this technological evolution is a really, really robust authenticating system and a more secure internet for many types of document transactions," Koo said. Blockchain also stands to reduce the timing of closing for real estate transactions, synchronize cash-flow streams from leases, and even create unprecedented levels of privacy and control on the profiles of individual consumers as well as commercial entities, he added.

"All the parties in a transaction, commercial or residential, could effectively look at an entire chain of verified, validated transactions and complete a closing, for example, in a matter of minutes," Koo explained.

If such technology evolves successfully, investors at every level could save a great deal in time and, additionally, in transactional fees that affect everyone in the process.

"The possibilities are endless when it comes to the blockchain," he said.

BREAKING DOWN THE BLOCKCHAIN PROCESS

George Koo is an expert on the unique combination of real estate, finance, machine learning, and blockchain technology. He dedicates a great deal of his time to instructing, advising, and consulting for the business community and academia on these topics and, as a result, has a finely tuned breakdown he uses to illustrate what blockchain really is and how it works:

"Blockchain is simply a technology for authenticating transactions. In fact, it was originally developed for use on the dark web so various 'bad actors,' like money launderers and drug dealers (who certainly wouldn't trust each other), could operate in a wholly trustless system. For every party in a transaction, the blockchain technology provides a cumulative security mechanism and distributed ledger that can be validated across an entire community. That validation creates a series of pending transactions, all chained together, in a digital file.

"The secret sauce is the distributed ledger process that provides blockchain with the authenticating mechanism over the system itself. It is a unique signature, and whenever a transaction 'goes through,' so to speak, it creates a 'block' that is, at the end of the transaction, validated by the entire population involved in the transaction. These blocks are essentially chained together, distributed to everyone involved, and problematic blocks, those that have been altered or rejected, are rejected by the community.

Because of the unique nature of the signature capability of the blockchain process, this verification is probably the strongest technology to emerge from cryptocurrency's evolution."

Tariffs, Trade Wars, Tax Policy, and Real Estate

As the November elections approach, Koo, like many other U.S. citizens on both sides of the political aisle, views the outcome as a potential referendum on controversial international policies that have been implemented since the current presidential administration took office.

In April of this year during an earlier interview with *Think Realty Magazine*, Koo predicted that certain taxes and tariffs placed on international goods could have a direct effect on regional U.S. economies and, by extension, on their real estate markets. At that time, one of his analysts, James Zhang, had recently noticed a pattern of proposed, potentially retaliatory tariffs emerging in Chinese policy that appeared to directly correspond to areas of the U.S. led by congressional leaders who endorsed current U.S. trade policies, including areas heavily reliant on soybeans, beef, and chemicals. "It appears that the Chinese were quite surgical in their process of identifying regions where retaliatory policies could hurt specific U.S. districts and regions," Koo said at the time.

Now, with the elections looming, Koo said he expects current U.S. trade practices focusing on the formation of bilateral trade agreements, those made via one-on-one relationships with other countries, to continue. As a result, he said, investors considering investing in areas of the country that might be particularly affected by international response to U.S. trade policy must continue to monitor these bilateral agreements closely.

"I think [bilateral agreements are] an inefficient way of doing business," Koo observed. However, for real estate investors, an awareness of the increasingly localized and regional sides of international policy resulting from these bilateral agreements could represent an edge when it comes to predicting market movements in their specific areas of the country. "For different regions of the country, there will be winners and losers," he said.

"I think that the coastal big cities will be largely unaffected, but inland areas of the country, especially those reliant on those trades that are being affected directly by the negotiations, will be very vulnerable to changes in trade agreements. A glimpse at what those changes might look like will likely emerge in the wake of the November elections," Koo said.

Individual investors could have an advantage over the institutional funds during this period of uncertainty since they have the ability to respond to changes and implement strategies faster, albeit on a smaller scale, than institutional funds.

Koo (above left) works closely with a large team of analysts, including James Zhang (above right) to identify emerging trends in real estate and other sectors and respond

Risk-Resistant Strategies for Beating the "Amazon Effect" on Real Estate

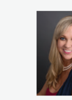
Koo brings an interesting approach to the topic of online retail behemoth Amazon thanks to his multifaceted concept of risk management. "My preferred types of real estate, usually commercial, are properties insensitive to what I like to call the 'Amazon Effect,'" he explained. Koo's Amazon Effect manifests when retailers fail to reinvent themselves sufficiently or quickly enough to effectively react to risk manage the overwhelming industry shift that has emerged in the wake of Amazon's tendency to sell nearly everything and deliver it in two days or fewer in the majority of cases, essentially for free.

"Since more and more people are buying from Amazon all the time, this shift in consumer preference happens at the expense of many retailers," Koo explained. "The retailer is still one of the largest consumers of commercial properties, so any investment relying on a retailer to support a commercial property's success is at risk if that retailer is sensitive to the Amazon Effect. I look for wide, diverse consumer bases focused primarily on lifestyle, entertainment, or destination locations."

Using Koo's strategy involves investing in properties that support lifestyle, such as exercise, entertainment, and food consumption. Since the current economic environment continues to support more spending and eating out more often, this category may also include entertainment venues. "For example, Dave & Buster's or any type of video-gaming emporium or lifestyle offerings, such as a gym or health-related business," and mixed-use locations offering a variety of walkable dining, shopping, and entertainment options, Koo said.

For a residential investor, this information may be useful as well. Investment properties in proximity to developments matching these descriptions may well represent solid potential gains for an insightful, Amazon-effect-averse investor.

"Jeff Bezos is the 800-pound gorilla in the world, and you will find in the future that he will demonstrate increased intelligence and influence over how real estate is being used," Koo said. •



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