



Own Your Life Newsletter

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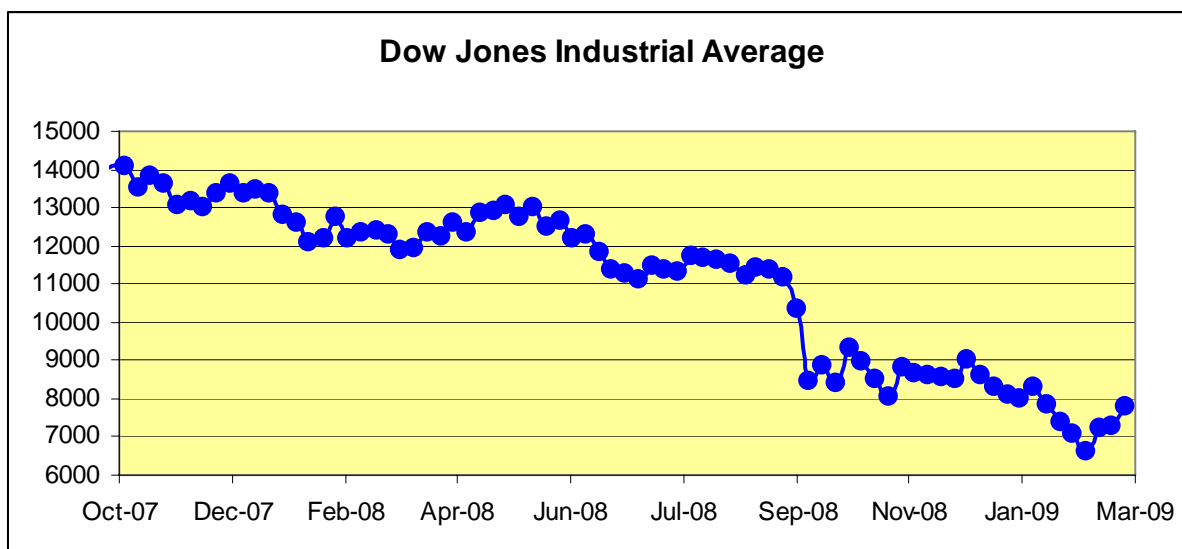
Were You Prepared for the Economic Earthquake?

by Marc Halpern, Own Your Life LLC

Do you remember the days when you would come home from work, have dinner with the family, then kick off your shoes and watch some relaxing television to escape the daily grind? Well, these days, watching TV is one of the most stressful activities in which you engage.

Sure, the evening news was always negative, describing some military conflict in some far away place, politicians getting caught doing something stupid and traffic backed up on overcrowded roads. But this time, it's different. The economic earthquake is no longer deniable.

The Dow Jones Industrial Average fell from over 14,000 to 6,500. The housing market suffered in many locations and even collapsed in certain areas. Unemployment is not only headed to 10%, but at job loss rate averaging more than half a million per month over multiple months. Credit is very tight. The government is looking to print \$2 trillion or more and that alone will create a new economy for at least 5-10 years. Yes, this time it's different and the economy has really changed.



Until recently, you could do everything right and assure yourself a good future. Many people did their best at their jobs, paid all their bills on time, made regular contributions to their IRA's, saved for their

kid's college and exhibited responsible behavior in every aspect of their lives. It turns out that working hard, spending less than you make and saving the rest, might not be enough.

Let's get acquainted with John and Mary Perfect. They are both 45 years old and their oldest child will be going to college next year. Their household income was always above the median and is now at \$80,000 per year. Being the responsible people they are, by 2006, they were able to save \$200,000 in IRA's and \$100,000 for college education for their two kids, now 18 and 15 years old. They have no debt other than the mortgage and loans for two non-luxury cars that they need to get to work to make their \$80,000 this year. They took out a reasonable second mortgage to do some remodeling of their pretty house (not McMansion) in their pretty neighborhood, but they didn't strip every last drop of equity in their house to buy jet skis and other toys they didn't need. They followed the advice of their stock broker some years ago and put 65% of their IRA money and kid's college fund in stocks, 25% in bonds and 10% in cash. They stayed the course as the market down without changing their investment portfolio. They followed some outdated "conventional wisdom" and watched the Suze Orman Show wondering how people could get into so much trouble.

John and Mary Perfect did almost everything right and were fiscally conservative. However, even with their balanced portfolio, as of last week their retirement savings were down to \$120,000 and their kid's college fund was down to \$60,000, enough for two years of college for one child (tuition, rent, meal plan, living expenses). It took 15 years to save that college money and now it will last for one half of one college education for one child. John and Mary Perfect don't have enough time to rebuild the college fund and it feels like after all the sacrifice to build their retirement fund, they have to nearly start over or at least go back to where they were a decade ago.

John and Mary Perfect did almost everything right and have a long hill to climb. But at least they had a cushion to fall on when the tremors hit and they are now in a position to dust themselves off and get back to climbing. Many others are not so fortunate.

You can blame the banks, blame the regulators, blame the commercials (when your bank says no, Champion says yes), blame greedy executives, blame Jim Cramer and maybe even blame yourself. But 99.9% of us were living in a fantasy while misperceiving the imminent economic earthquake.

Can you believe that the Dow Jones closed at 11,059 on the day we launched our book on September 16, 2008? People were complained at that time that the DJIA was so beaten down and CNBC had commentators discussing how many weeks or months it will take to get back up to 14,000. Less than a month later, on October 10, the DJIA dipped as low as 7774 (almost exactly where it closed yesterday – 3/23/09) before closing at 8451.

By the way, September 16, 2008 was also the day that the US government injected AIG with \$85 billion for a 79.9% stake in the company. Had they not done that, we would have seen a 1930's-like collapse of the US economy. So, the earthquake that actually happened is nowhere near as bad as it could have been!

Who was prepared for the economic earthquake? Few people were truly prepared for the economic earthquake, but some were better prepared than others.

Some of us learned the lessons of the 2000-2002 downturn in the stock market and we diversified our investment portfolios.

During that period of time, I increased my real estate investment activity and started private lending to other real estate investors secured by a mortgage at a prudent loan-to-value ratio. Later on, I diversified my IRA holdings by shifting investment from mutual funds to gold and silver. I started a self-directed IRA and self-directed Roth 401(k) and used those for real estate related investments. In August 2007, when the DJIA was around 13,000, I took \$80,000 that we set aside primarily for the last 2.5 years of my younger son's tuition and expenses at Temple University and put it in private lending at 15%. When we needed the money, it was worth well over than \$90,000, instead of the \$45,000 it

would have been worth had we left it where it was. We were lucky on the timing, but we were deliberate in our decision to transfer this asset from the stock market (which was doing well at the time) to a very safe and more conservative investment, i.e., private lending.

As a result of learning the lessons from the 2000-2002 bust of dot coms and the stock market in general, we positioned ourselves for more moderate growth and less risk in our overall investment portfolio, while bolstering our ability to build wealth using real estate investing. Yes, we lost money in the stock market in 2008 and early 2009, mostly in our IRA as a result of the remaining investment in mutual funds, but that loss was mitigated by the diversification into real estate, precious metals and private lending, some of which couldn't have been achieved without setting up self-directed IRA's.

In short, we were prepared much better than my other baby boomer friends, some of whom are now realizing that they might not be able to retire and are confused about what to do with the greatly shrunken amount of money that is left in their retirement accounts.

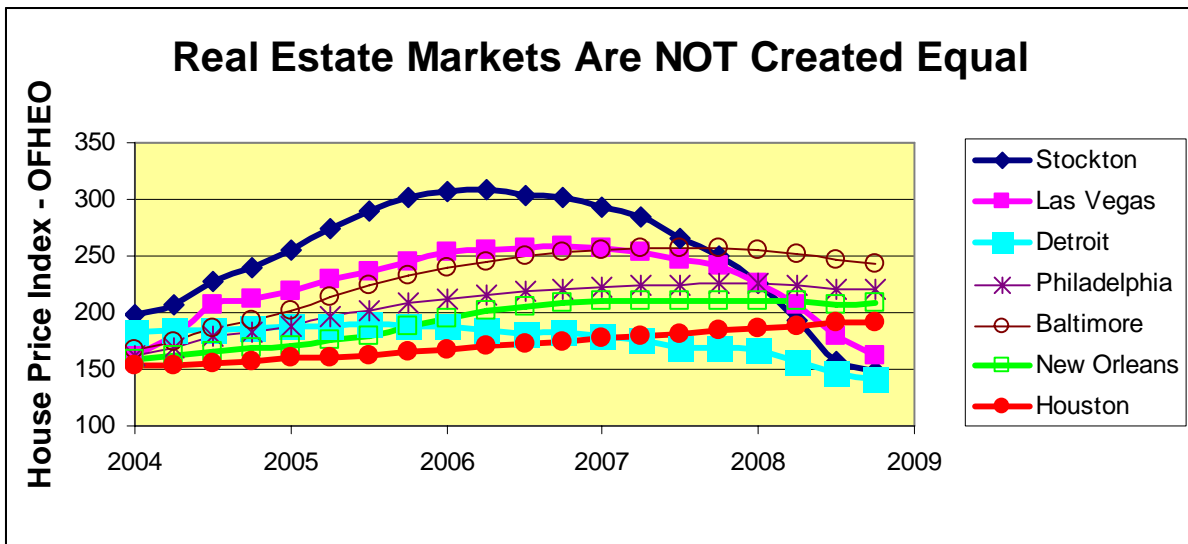
One of the reasons that we were better prepared to weather the recent economic earthquake was investing in real estate. There is a lot of hype in the media about the crash of the real estate bubble that peaked in 2005-2006. It turns out that the real estate bubble was not nationwide and the magnitude of the price decrease varied greatly from none at all to mild to severe. In fact, we increased our real estate investment activity in 2005-2009.

For example, in Southern New Jersey, where we live, the peak of real estate prices was in 2007 and we experienced mild price increases over 2006. The price decrease in the surrounding counties in 2008 were in the 3-5% range...this after a 100% increase since 2000.

What about other areas? According to OFHEO (Office of Federal Housing Enterprise and Oversight), in the 4th Quarter of 2008, prices in Houston were still increasing and were higher by 2.7% relative to a year earlier. Louisville was up 0.8% in the 2008 4th quarter from a year earlier (down 0.6% from its peak) and New Orleans was down 1.4% in 2008 4th quarter from its peak in 2007.

In stark contrast, Las Vegas was down 33% in the 4th quarter of 2008 relative to a year earlier and even more from the peak (again OFHEO data). Miami and Detroit were down 24% and 16% respectively in the same period of time. Stockton, CA was down a whopping 52% from its peak by the end of the 4th quarter of 2008.

Why is watching TV so stressful? Because Las Vegas, Detroit and Stockton were in the national news. Southern New Jersey, Houston and Louisville were not.



In Southern New Jersey, I bought houses significantly under retail value in 2005-2008 and built equity while enjoying positive cash flow using Lease-Option and Buy-Rent-Hold as investment strategies.

Even part-time real estate investors like myself, should be buying at 15-20% under retail price (including the cost of renovation). Even if we buy at the absolute height of the market with the worst timing, it is rare to lose money since we are buying well below retail price and the real estate markets rarely drop by more than the discount at which we are buying and we are not forced to sell at the worst time in the market cycle. Due to the mild drop in real estate prices in our area while buying at the right price, we are definitely making money and building wealth.

The title of this article was a question "were you prepared for the economic earthquake?" If you were, then congratulations. Most people were not.

Those of us who learned the lessons of 2000-2002 were better prepared.

The big question now is will we learn from this economic earthquake and be ready for the future? Things have really changed. Now what? That will be the subject of the next article below.

How to Prepare for the New Economy Going Forward

by Marc Halpern, Own Your Life LLC

You have probably figured out by now that there is a new economy going forward. If not, it's time to realize that the next 5-10 years will not be like the last 5-10 years. Two trillion dollars can't be printed without some dramatic ramifications happening. Even if government revenues meet the unrealistically high expectations for growth of the economy, there will be massive debt and there will be inflation. Painful adjustments in employment will be made. These are all part of the price we will pay to repair our excesses of the early 2000's and in order to have averted collapse of society in Sep-Oct 2008.

There will be a recovery. There always is. We don't know when it will start or how fast it will grow. Consensus right now is that economic contraction will end in late 2009 or early 2010. That does not mean gangbuster growth in 2010. It means that the bleeding will stop on a macroeconomic net basis.

If there will be a new economy, how can we be prepared?

The short answer is to have multiple reliable **independent** streams of income. Gurus tell us that they should all be passive streams of income. I don't necessarily agree. Let's get more into detail.

First, if you have a significant other and at least one of you has a job or skill that is or can generate significant and reliable income, then it is probably prudent to leverage that job or skill to make some money. If one of you wants to be a full-time entrepreneur, the other should have a steady source of income as the economy recovers.

For example, my wife is a reading specialist. She works hard, loves her job, helps the US sustain competitive advantage by increasing literacy of at-risk students and teachers have a stable income. My wife's income helps balance the ups and downs of me being an entrepreneur. When the economy undergoes major changes, entrepreneurs absorb and/or thrive on the fallout. But entrepreneurship is not a sure thing, so it's not a bad idea to have a stable income in the household, even if it is not passive income. Any entrepreneur who says that a businessperson's income steadily grows every year with no hiccups over a 10-15 year period, regardless of what is happening in the economy, is lying.

Secondly, live within your means. Spend less than you make. If you have credit, use it for investment, not consumption. Credit should be used to buy appreciating assets like houses (including primary residence) or to enable you to make money (e.g., paying for a vehicle that is required for your business or job). When I didn't feel like investing in real estate, I used credit to generate passive income through private lending. When we buy toys or go on cruises, we do so with money we have.

Thirdly, make sure your investments are diversified. Your stock broker will tell you that diversification means a little in health care stocks, a little in telecommunications stocks, a little in Asia-Pacific stocks, a little in bonds, a little in CD's, etc. In my opinion, stocks are unpredictable enough to avoid putting a majority of investments in them. Everyone, including me has stories of making a lot of money on hot stock tips. What they might not tell you is that everyone, including me has lost a lot of money on a "great stock pick."

Having said that, it doesn't mean to avoid stocks altogether. I know a lot of people that have 100% of their assets in real estate, including family members and partners. They feel comfortable with that and God bless them. They feel that real estate is the premier investment strategy and I agree with that statement as will be explained below. However, that doesn't mean that 100% of one's assets and investments should be in any one category including real estate. That is a personal choice.

My view of diversification (which is good for me but might not be good for you) is to keep my investments as independent as possible from each other. To me that means, stocks, real estate, precious metals, private lending secured by mortgages at low LTV, emergency fund cash and skills to generate income by actually working.

Yes, I said it...non-passive income. That means that every five years or so, I add a skill that I can leverage to make money. For me that means chemistry, marketing consulting, publishing, training and of course real estate investing. I almost went for a law degree when I was 50 years old, but I didn't want to invest the time for another piece of paper entitling me to more active income. I haven't yet decided what I want to be when I grow up, but I know that down the road, I will add more skills and that will make me more secure. You should consider the same. At a minimum, you should be on a quest for continuous education about real estate investing, because it is the best way to securing or at least supplementing your financial well-being.

A few more words about stocks and stock brokers. Buying stocks on margin is akin to gambling. Buying real estate with other people's money is rather predictable. If you don't believe that, please re-read Chapters 4 and 25 of our book "We Buy Houses, Sometimes!" At the other extreme from buying stocks on margin are buy CD's. They are just a mechanism to attempt to avoid erosion due to inflation and I don't get excited about them. I don't get excited about government bonds either with their low yields. Corporate bonds may be another matter. One more thought, when you ask a stock broker about real estate, they think you're talking about REIT's.

This brings me to the topic of diversifying by investing in real estate. My first comment is to address risk. These days, non-investors are saying that real estate is a dangerous investment due to a plunging market. Well, only some markets are truly plunging and you need to know what is happening in your area. Most markets are not seeing dramatic price decreases, even when day-on-market are getting longer. The previous article illustrated that there are markets that are increasing in price, others decreasing and others are nearly flat.

You can make money in almost any real estate market as long as you buy right and use the right investment strategy. For example, if you buy and rent a near median house worth \$200,000 and hold it for 15 years of a 30 year mortgage term and it averages 4% per year appreciation (over 15 years; average appreciation in the US is about 5.5-6%) and you have a loan at 7%, you would have about \$250,000 of equity in the house after 15 years. Just four houses is a million dollars! That doesn't even include the positive cash flow from the rental. You would actually have an advantage buying the house in a buyer's market because you should be able to get the house at a low price that can generate positive cash flow and have instant equity.

If you don't want to wait 15 years, then in a buyer's market you can use the strategy of buy very low, fix and sell low. The key in a buyer's market is that it presents the unique opportunity to buy low or buy very low. Sure, it is harder to sell in a buyer's market, but you can sell a house in almost any market if it is in the top 10% of quality and the bottom 50% in price.

More about buying in a buyer's market. When you buy in a buyer's market for buy-fix-sell or lease-option, you must know the rate of change of ARV (after repair value) and you can determine this by studying comparable house sales as a function of time instead of relying on a static number.

The trends in a real estate are knowable. There are few surprises in the behavior of real estate markets. Changes of trends in a given real estate market take months or years. Changes in stock prices can be from minute to minute. Real estate prices don't change direction suddenly, the direction and magnitude change gradually. The prices themselves may be increasing rapidly or decreasing rapidly, but they are knowable since the trends change slowly enough to observe and measure. You can see them coming months in advance. Some people ignore price trends and look at static "comps." Do so at your own risk.

When you understand the basics of real estate investing (not real estate fads, gimmicks or flavor of the month strategy), while doing due diligence and choosing the right strategy for the location, market cycle and your personal skills, resources and goals, you can make money in real estate investing.

How does real estate investing fit into the new economy? There are many levels of answers to this question and I'll address two of them.

When the lending crisis is resolved in 1, 2, 3 or even 5 years, there will be pent up demand, especially by the Generation Y 25-35 year olds. With FHA-insured financing, these first time homebuyers will be able to buy a house with only 3.5% down payment and a job with W-2 income. If you are investing in affordable houses today in 2009, you can rent them to tenants or tenant-buyers and sell them in 1-10 years from now (depending on your needs for cash) while generating positive cash flow.

You may want to read that last paragraph again. It's a very simple concept. Buy low now during the buyer's market and sell high later to a large pool of qualified first time homebuyers.

You should also review the article in last month's newsletter called "What's Hot: Affordable Housing; What's Not: McMansions." I am shifting my target farm areas to affordable housing in the \$150,000 to \$240,000 range.

Inflation will be coming in a couple of years as a result of the massive printing of money in 2009-2010. If you buy a house now with 10%-20% down payment and you borrow the rest, then if house prices increase even at a fraction of the inflation rate, the return on investment due to leverage will greatly outweigh the reduced buying power of the profit dollars you gain.

In summary, if you want to be prepared for the new economy, you should diversify your sources of income and wealth building. This includes taking a 30,000 foot perspective of how you make money and take into consideration your skill set(s) for active income as well as investment vehicles for passive income and long term building of wealth. Investment categories go well beyond stocks and bonds. Real estate investing should definitely be part of your masterplan, but you have to do it intelligently and know the basics, not the fads.

In a future article, we will discuss how to use self-directed IRA's and self-directed Roth's to build wealth. If you have an IRA that is not self-directed, you probably have lost a lot of money in the past year and a half by investing in vehicles that a stock broker can sell to you. Stay tuned for this important subject.

Radio Show "All Things Real Estate"

Recent Topics & Links



Saving Money Today

04-Mar-2009
Pani Crook

Saving Money Today is something we all need. At All Things Real Estate we are bringing you many ways to do that. Today's guest Pani Crook from Energy Efficient Homes Team tells us about how we can do a "Home Energy Audit" to find the areas where we can save money and help save energy. We focus on three areas of concern: air infiltration, ventilation, and insulation. You won't want to miss the great tips and resources. www.AffordableUtilityBills.com. We also talk about how you can find your own value by doing a preinspection on a house before you buy. Finally we wrap up with 9 tips to find bargain basement deals to buy in today's market.

[Download MP3](#)

Making Home Affordable, Housing Stimulus Program

11-Mar-2009
Jed Smith
Kelly Maul

Whether you're struggling to pay your mortgage, or you know someone who is, you won't want to miss this weeks show where we give you the bottom line information on who can get help and how to do it. Our first guest, Dr. Jed Smith, managing director of quantitative research with the National Association of Realtors gives us the newest information on the \$275 Billion Housing Stimulus Program. Homeowners have 2 possible answers in the form of a loan modification, or a refinance. To find out how to apply and get a wealth of additional information you can go to www.financialstability.gov or www.hud.gov and locate a certified HUD counselor in your area. We speak with Kelly Maul of AHOME Inc., a senior foreclosure prevention counselor (HUD certified) who tells us about the process.

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Today We Answer YOUR Questions

18-Mar-2009
Michele Gorman

This week on All Things Real Estate we answer your questions. Our first caller is Tom Curnew from Meridian Mississippi who is thinking about buying a house. He is a first time buyer and host Michele Gorman answers his questions and concerns about buying in today's market. We also have a new investor, Vittorio Anepete, of Southern New Jersey, who asks Michele the tough questions about how investors can take advantage of this time in the market, and how they can be successful even when lending has become challenging. And as always don't miss the mortgage minute with Dan Carnation when we cover qualifying ratios and the importance of your credit score.

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