

WHERE TO INVEST? REAL ESTATE OR STOCKS?



In recent months, there's been a lot of debate as to whether to invest in Stocks or buy Real Estate as a safe hedge against inflation and to build wealth. Given the current predictions of a drop in property prices, and the unpredictable Stock market, I still maintain Real Estate will continue to be the better choice. To prove that Real Estate will still be a smart investment decision, let's examine the potential of both.

We have all heard of the many riches that both Real Estate ownership and the Stock market can bring, but unfortunately we also have heard of the horror stories from both types of investments that had terribly gone bad. As you are probably aware, the stock market can fluctuate dramatically and you have little control on what happens to your investment. You pray and hope that your stocks do not plummet because of bad news migrating from some foreign country, or another Ponzi scheme creating havoc in the market? Make no mistake, we have witnessed overnight swings that had made people rich in the Stock market; however we have also seen in other cases sending investors to bankruptcy.

We know that Real Estate owners are not shielded from such peaks and valleys, exemplified by the boom of the late 1980's and the subsequent recession in the early 1990's. However, it is important to note that the swings in Real Estate are more predictable and not as severe. More importantly you have more control on the investment. In addition Real Estate investment is unique from the Stock market because real wealth is achieved by using leverage. As an example, with leverage an investor could buy a real estate asset worth \$1,000,000.00 with as little as a \$100,000.00 investment. You cannot use this leverage with stocks. With stocks you are basically buying dollar for dollar.

One of the greatest benefits to Real Estate investing is that it's probably one of the more accessible ways to invest using borrowed money. So often I hear people say they don't like borrowing because they believe that being in debt depletes their personal net worth. This is true; consumer debt-loans to pay for a car, a vacation, or other non-investing debt, will be a burden on a person's potential net worth. However it's not in the same category as an asset-backed debt. Asset-backed debt-loans secured by a potentially appreciating asset, such as real property, can be a great way to use leverage to increase a person's net worth. Also keep in mind the cost of interest on the loan used to invest, is tax deductible.

In my view, borrowing to buy Real Estate makes for a good, long term investment strategy. A great example of that benefit is that a house in Burlington Ontario (30 minutes West of Toronto) in 1980 sold for \$100,000.00. Today that same home is worth over \$600,000.00. That is tax a free gain as a residential home, or a capital gain as an investment property. History shows that buying an investment type of Real Estate will over time build wealth. An experienced investor is able to buy on short term and by flipping properties will earn good profits as well. However that is a high-risk strategy. What I am promoting is a longer-term investment plan. Great wealth is generally achieved by long term holdings and allowing the equity to grow.

When buying Real Estate, the best way investors can avoid risk is to focus on cash-flow positive properties. That means the rental income covers all your expenses, including the mortgage, taxes, insurance, maintenance, repairs and a contingency fund; and have extra cash at the end of the month. That way your property will be making money for you whether real estate prices go up or down-so hopefully, you'll never be forced to sell in a down market.

The following are some of the many advantages in a long-term real estate investment plan which will build your retirement nest egg.

- Building Net Worth over time from capital appreciation
- Take advantage of the many tax advantages
- Cash flow and residual income,
- Capital gain on sale (or tax free on your home)
- Equity growth through mortgage principal pay down,

There are important questions you need to ask yourself, before you consider in entering the world of Real Estate investments;

- a) Are you prepared and do you have the energy, to devote as much time as necessary to looking after your investment? Unlike Stocks, you have to be more involved on daily basis.
- b) Do you have enough retirement savings and investments to retire comfortably without such real estate investments?
- c) Are you going to be able to send your children to university, with your present income and net worth?
- d) Since real estate is not liquid, is liquidity a concern for you?

Stocks or Real Estate? I say "Can you afford **not** to buy Real Estate?"

