

San Fernando Valley Business Journal –January 21, 2008

## Shelter From The Storm in 2008

GUEST COLUMN

By Bruce Weide



I'm no Harvard economist, but I do try to keep an ear to the ground as part of my business. And I believe I see a potential perfect financial storm coming in 2008, which will be quite unique in our most recent economic history.

As I often do, I'll borrow a metaphor from my friend, Douglas Andrew in his book, *The Last Chance Millionaire* (2007 Warner Books). Doug describes the 3 "lodging places" for investment funds in America. He refers to the real estate market as the "House of Sticks" with a moderate risk of loss for investors, the stock market as a "House of Straw" with the highest potential for risk, and banks and insurance products as the "House of Bricks" with guarantees and the least level of risk.

Now certainly there's a million variations of how to play these three for sophisticated investors, no matter what directions markets go. So for you such clever cream of the crop, more power to you. You'll be okay no matter which way the wind blows.

But I do so worry about the rest of us that make up the bulk of the Baby Boomers, fast approaching their retirement years with maybe \$100,000 in their 401K (a drop in the bucket) and their equity in their home as what was, until recently, their most aggressively performing investment, now drifting back out to sea. Most of us still have our head down trying to make an income for the next 10 years, let alone having spare hours to sharpen our investment timing skills for turbulent markets ahead.

You see, in the past, you could almost predictably make a play back and forth between real estate and the stock market and it seemed that they just about always were great money makers, but...roughly *reciprocal to each other*. You could almost count on it. And when you couldn't count on it, funds fled to the House of Bricks, bank CD's and money markets.

Today though, with no easy fix on the credit market to buoy back real estate, and every attempt the Fed makes to stimulate the economy back with low interest rates weakening the dollar, I see no clear reason for either the stock market to zoom off in the near future, or for real estate to come back hard.

Another great concern I have is that we've got some compelling pressures looming in the distance to raise marginal income tax levels across the boards to manage the debt and thereby fortify the dollar. But

there's a sure tightrope – big national deficit weakens the dollar, raise taxes to pay the debt, and thereby kill the economy, while decimating Boomer IRA and 401K taxable withdrawals.

It sums up this way for 2008: 1.) Real Estate market is falling fast, along with potential retirement wealth Boomers and GenXers *thought* they would be able to tap to aide their retirement, 2.) Stock market could go anywhere, but likely to be volatile for some time to come, and/or we may just be looking at a slow growth a la the 1970's, 3.) If the deficit keeps rising upward to cover Boomer Social Security and Medicare needs, dollar could continue to weaken, and Asia or Europe will rule 4.) Just as Boomers seriously enter retirement, if the debt is to be mitigated, expect to see some serious increases in income tax levels.

I say all this because we have routinely employed a safe, passively managed stance that we believe negotiates these coming waters with peace of mind, and it would be unfair not to share it. It's not for everyone, nor is it perfect, but it is a conservative patch for a lot of working people who need to preserve what real estate equity values are left in their homes or other properties. And if your advisor has studiously read Andrew's *Last Chance Millionaire* (and follows it precisely) they should be able to implement it for you.

1.) Remove every bit of equity from your properties that you can, before the rest of it floats out to sea. It could be 10 years before you'll get it back if you don't do this now. 2.) The repositioned "cash" must grow in a TAX-FREE environment, to help give you a conservative spread over the largely tax-deductible cost of the mortgaged funds. In our offices, we customarily engineer life insurance products to enable the tax-free retirement income benefits, but be sure to ratchet down any internal insurance costs to a bare minimum with the lowest allowable death benefit. 3.) The insurance products open the door to two well-hedged crediting methods that fit the uncertain future: a.) Products that offer 140% of the annual performance of the S&P 500, but lock-in annual gains against loss with minimum guarantees, b.) Products that follow the Hang Seng, Eurostox, and S&P 500 index for 5 years, and credit a weighted return proportionately (75%/25%) from the top performing 2 of these indices, and throw out the worst, all in hindsight at the end of the 5 years.

What this effectively does is perpetually harvest returns from either the House of Straw (stock market) or the House of Sticks (real estate), should there be any growth at all, and then lock it into the House of Bricks with minimum guarantees against future loss of those gains wherever they are made. Therefore what the markets giveth they can not taketh away. It's a TAX-FREE, conservative approach, if properly implemented.

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