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## Sorry to Say “I Told You So”

GUEST COLUMN

By Bruce Weide



I saw Jason Schaff at the *50 Fastest Growing* event last month, and he just about turned white when he looked my way, like he'd just seen a dead man walking! I haven't written for the Journal in over a year and Jason thought he might need to start checking the obituary pages for my name.

Well, it's certainly not for any lack of financial and economic news I haven't written, that's for sure. Come on – the tanking real estate market, the credit crunch, volatile stock markets, weak dollar, taxes getting even surer to climb despite all the smoke and mirrors adjusting the AMT downward. What a turbulent year for me to be sitting on the sidelines keeping my mouth shut!

Believe me, it wasn't easy for me to sit silent. But I have had two excuses. One - good year for business. I'm an advisor to my clients first and a big mouth editorialist second.

The second excuse relates to the first indirectly. And that is, I already told you so! Why should I say it all again and again?

Back in early 2006 I kept screaming “It's over! End of real estate boom.” Seems like no genius now, but back then I suggested some rather serious medicine be taken to preserve home equity values, even if that was still early enough for the majority to wait and see. And all that's been going on newsworthy since that time is exactly what I said would happen. That big sucking sound!

So what's your home equity look like today? Had enough? Well, sorry to remind you that the worst may be yet to come. Consider that in 2008 about half a trillion dollars' worth of Option ARMs are due to reset to a higher mortgage rate as their two-year teaser rate period comes to an end. (Good thing that my opinions don't necessarily reflect those of the SFVBJ. Please keep buying the Journal, real estate brokers.)

Last year, I quoted John R. Talbott, visiting scholar at UCLA's Anderson School of Management, in his book *Sell Now, The End of the Housing Bubble*, (2006 St. Martin's Griffin's) when he wrote:

*...you need to know that today's high housing prices are an abnormal bubble about to burst...*

Talbott nailed it when he demonstrated in his book that outrageously low interest rates combined with obscenely easy credit had falsely inflated the housing markets, and it was coming to an end in a big way.

What I didn't tell you about then is when he also said:

*It is not fair to say that the current boom [2000-2005] will fully reverse itself, but is accurate to say that if it does not, it will be the first time in a century that a boom in real prices actually stuck. (Note: Talbott has removed relative inflationary increases from the equation.)*

But personally I don't really even care about investment losses and gains and strategies in the short run. What I DO care about is this, and it is *no small concern*: **There are 78 million Baby Boomers heading into retirement soon enough, and the average 401K balance is about \$50,000!** Sure, you guys have done better, but that means that a lot of Boomers have done worse! And the ONLY wealth they have fortuitously accumulated over recent years is (was) the equity in their home! Bye-bye.

My point is that the worst part of the real estate crash is that what little shot at a comfortable retirement a lot of the working class may have accumulated despite themselves, it's now on the final run to vaporize right in front of their eyes, and they don't even know it.

But the good news, (I know you're ready to strangle me by now. I bet I had you going) yes, the GOOD news, is that in the coming years CASH WILL BE KING. And will there ever be a Buyer's Market in real estate! Yes, you want to buy, but you also need to be prepared to hold for at least a decade for some real appreciation.

If homeowners were only to cash out now, (you don't need to sell your house to do that. See *The Last Chance Millionaire* by Douglas Andrew, 2007 Warner Books) and preserve what equity they have left, they'll need to keep that equity in a conservative "purse" that grows slightly better than the cost of the mortgage.

But that's the trick. Now you're talking inflation, weak dollar, unstable markets, and Uncle Sam's increasing cut. I guess I need to write more next issue. I'll tell you how to duck those problems, too.

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