

ARE YOUR STOCKS SINKING?

"IT MAY BE A GOOD TIME TO DIVERSIFY INTO REAL ESTATE"



Compliments of

For many investors, the declines in the stock market resulted in substantially lower returns and, in most cases, a significant drop in overall portfolio values. In fact, if an investor had purchased a portfolio of stocks listed on the NASDAQ at the peak around March, 2000, they could have seen a decline of over 60% in their portfolio value a couple years later. Even though many financial analysts offer advice to keep a long-term perspective and remain fully invested in the stock market, is there some merit to exploring other investment alternatives?

DIVERSIFYING INTO INVESTMENT REAL ESTATE

This may be an excellent time to investigate diversifying out of an investment portfolio that is heavily weighted in stocks and shift some assets into investment real estate. In most areas throughout the country, real estate has appreciated well over the past few years. In addition, there are several fundamental advantages to owning real estate.

SOLID RETURN ON INVESTMENT:

Many investment real estate alternatives, such as an income property, produce a steady cash flow in the form of rents. Even if appreciation is not dramatic, the return on investment (ROI) can be attractive compared to conservative alternatives such as a bond fund or money market account. Many real estate investors routinely achieve returns in the 8-15% range. Furthermore, historically much of the time when the stock market is down, real estate has been up and vice versa.

BENEFIT OF LOWER BORROWING COSTS:

As the Federal Reserve has lowered the federal funds rate, generally the interest rates available for investment properties have also become more attractive. If a property generates an attractive return at the time of purchase, lower rates at a later date provide an excellent way for property owners to refinance. Replacing an old loan on an investment property with a new loan at a better interest rate creates more cash flow immediately, a better overall ROI, and this benefit will remain in place throughout the duration of the loan!

FULL CAPITAL GAIN TAX DEFERRAL:

The tax code gives an investor the option of performing a §1031 tax deferred exchange to acquire additional properties. The ability to postpone, potentially indefinitely, the payment of capital gain taxes provides an opportunity for the creation of wealth that is not available to investors in the stock market. An exchange provides investors with an interest-free, no-term loan from the government.



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