



SUSAN STORMS

MAY 2003

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**Home Equity—An Asset To Be Managed.** Three years of a bear market, coupled with 10 years of appreciation in home prices, leaves our clients in an environment in which the value of their personal residence is often higher than the value of their investment assets. While this isn't necessarily a bad situation, especially for younger clients, it can be a problem for clients approaching retirement. The question we need to ask ourselves is, Does it make sense for a 60 year-old couple with \$400,000 in investment assets to have \$450,000 tied up in the family home? If you've read our columns in the *Journal of Financial Planning*, you know that we don't believe in "one size fits all answers. What we do believe is that many of our clients are in need of a review to develop a strategy to manage their home equity. Some clients are better off with their residence unencumbered while others are better served with a low-interest, 5-year fixed-rate mortgage which becomes a one year adjustable loan in years six through thirty. Still others are better off with a line of credit, which can be drawn on to fund emergencies or take advantage of opportunities which may arise. The answer depends on the characteristics of our clients. Risk tolerance, available investment opportunities, and tax brackets play an important part in determining the appropriate strategy. If you are looking for ways to add value to your asset management service, you might look for clients with a large amount of home equity relative to their investment assets or their liquidity needs. You might also want to look at those who have exceptional investment opportunities that they aren't taking advantage of (PERA credits?) Of course, we would be glad to give you a hand in assessing the financing opportunities available.

You might also want to read an article by Raymond Fazzi in the May issue of *Financial Advisor* (page 91). We agree with most of that article and its nice to have someone besides us preaching this line. Adding mortgage services can improve your bottom line and we would be glad to help you provide these services with a minimum of brain damage to you.

**Risk and Reward in Real Estate Investments.** Have you heard the radio commercial for a real estate firm offering to get your clients into rental duplexes with as little as ten percent down? The commercial promises a positive cash flow from the beginning and states that investors who bought this type of investment in 1992 would have earned almost 100% per year during that time frame. We listened carefully but we didn't hear them say "Past performance is no guarantee of future results." The spokesman for the commercial is a nationally known radio and TV talk-show host with a lot of credibility among his listeners but the clients who buy into this strategy are in for a lot of risk.. Rental real estate can be a great wealth builder but the current market is extremely dangerous for the naïve investor shopping for a property with a real estate broker who's main job is to sell inventory. The current market is one in which investor demand is strong while tenant demand is extremely weak. This is a dangerous combination which could result in paying a prime price for a property which is subject to declining income, either from vacancy or the reduced rental rates which may be necessary to attract tenants from competing properties. Real estate can be a great wealth builder and many of our clients have seen their home equity double or triple at the same time the value of their financial assets were cut in half. Some investors are willing to abandon the financial markets and jump into rental real estate. Obviously, financial planners will advise against this but will clients listen? The best approach is to advise clients to stay diversified and venture into real estate only after carefully developing an acquisition and management strategy. Opportunities exist but the need for competent counseling has never been greater.

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