

# THE STORMS REVIEW

WHAT'S IMPORTANT IN THE REAL ESTATE AND FINANCIAL MARKETS

According to

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**August, 2003**

**The War is Over (Sort Of).** The invasion of Iraq has accomplished many of its objectives. Now what do we do? Obviously, that sort of thing is beyond my expertise. We did get a nice little market rally afterwards. At this point it appears that the markets don't know whether to go up or down. Statistically, this time of year is the least favorable for a rally. We haven't changed our philosophy of emphasizing dividend-paying stocks but even these have done poorly in recent weeks. Our theory is that increasing long-term interest rates are making these stocks slightly less attractive.

**The Long Awaited Bond-Market Correction is Finally Here.** The 10-year treasury yield has increased almost 50% from the low threes to the mid fours. If you had invested \$10,000 in these bonds when yields were at their low point, they would now be worth \$6,850.00. The Federal Reserve bears no responsibility for the increase in long-term rates since they are maintaining the overnight rates at 1%. It appears that the increase in long-term bond yields is mainly due to inflation fears, which in our opinion are over-rated. Perhaps the drop in long-term rates was over-done (just like the stock market increase prior to 2001). We believe that we are in for a protracted period of low interest rates and flat stock prices. There is a lot of optimism concerning the potential for rebound in our economy; however, we are not among those who believe a strong rebound is imminent.

**Is There a Real Estate Bubble?** No one really knows, but we certainly have a large inventory of unsold homes on the market. Now that long-term rates have increased, buyer demand may drop even more. If you have a home for sale be aware that potential buyers have many choices. In arriving at a listing price, make sure your agent considers the prices of homes currently on the market as well as homes previously sold. Drive by these comparable sales and compare these to the home you are selling. Put yourself in the buyer's position. Would you buy your house or the competition's? Price your home accordingly. If you are a buyer be aware that you have more choices than at any time in the past 10 years.

If you are a real estate investor, remember that the demand for quality real estate is strong. You may have to settle for lower capitalization rates than in the past. The problem is that tenant demand is weak. This means that your net operating income is subject to decrease if you can't maintain current occupancy and rent levels. The most important factor in choosing an investment is risk. Make sure you understand the risks involved before making an investment. The key to your success will be effective property management and the ability to consider what can go wrong along with what can go right. We have recently prepared a booklet entitled *How to Be a Landlord in a Tenants' Market.* Call our office and we'll send you a copy. Don't forget we have moved. Please note the address change listed below. We will try to be more timely with our newsletters in the future.

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