

## The Party is Over for Real Estate (6/20/07)

I wish I had a dime for every time someone said that they can make a lot more money in real estate than in the stock market. These comments were prevalent around the time of the bear market from 2000 to 2002. Back then homeowners and real estate speculators relished in the fact that the money they invested in their homes and investment properties paid off handsomely while stocks languished.

But how have those same real estate investments performed over the past few years compared to stocks? The late 1990's and first half of this decade was an exceptional period for real estate, but the longer-term performance for housing illustrates this investment's relative underperformance. Nationally, home prices rose an average of 6% a year over the past 30 years, exceeding the rise in consumer prices by just two percentage points a year and lagging well behind the S&P 500's annualized return of more than 12%. Certainly, the leverage we use in housing investments through mortgages enhances this return, but leverage could be used to increase a stock portfolio's return as well.

The problem is that many people have simply over-invested in their home and other investment properties, viewing them as a retirement savings vehicle. Not only does this strategy provide a non-diversified portfolio, but in a housing market like the one we are in now, it could prove disastrous. If you have not already, we advise you re-evaluate your personal exposure to real estate, both in your investment portfolios and in your direct investments in housing.

We all have that house, condo, or other investment property we made a bundle on. Many of us also have a great stock investment story or two. But investing for retirement is not about hitting a grand slam, its about hitting a lot of singles and doubles. Diversification is the key.

The current housing market is a painful reminder for many as to why you should not view your home as primary retirement savings. The strong price appreciation in housing over the past decade was an aberration, vastly exceeding the rise in personal income and far higher than the long-term norms.