

Good Deeds Can Pay Off in Real Estate Profit

By John V. Kamin

Do you feel that today's real estate market is distressed? Are you ready to admit that the credit crunch predicted by the Forecaster two years ago is now fully operative? Instead of scrambling around cutting coupons, looking for cheap gas, wouldn't it make a greater impact on your lifestyle if you were able to make a sizable chunk of money at one time, say six figures or more? Wouldn't it be absolutely great if you could do some good deeds, for the right reasons and at the same time work on a profit? What kind of good deeds?

Since you probably agree that the real estate market is distressed and money is hard to come by, the good deed is to provide liquidity (cash) to illiquid situations, such as property that cannot be sold easily under present circumstances. That's why I wrote the long-time best seller, How to Make Money Fast Speculating in Distressed Property.

A Bit of Recent History

During the recent real estate boom, I was repeatedly begging people to sell their worst properties and raise some cash. This was an unpopular message at the time during the real estate boom. Real estate flippers and others felt that they could "cash out any time." Others felt that they could just "keep on refinancing" using their property as an ATM. In 2006, 2007, 2008 and 2009, I repeatedly reminded folks that real estate was illiquid most of the time, probably more than half of the time. During normal non-boom times, it also took months to sell properties and even longer (years) when buyers were scarce. Nevertheless, in boom times or bad times in real estate, properties have to be sold. These are what we call NTS or Need-to-Sell properties and these transactions have to take place because of court orders, estate liquidations, foreclosures, divorce, judgments, partnership split-ups, tenant vacancies, mergers or other reasons.

When you run into illiquid situations on NTS properties, you are presented with the opportunity to do a good deed by providing liquidity, cash and often credit to get the good deed done. In return, you hope to make a profit, if possible.

Cash is King

If you don't have cash, you can still get deals done, but not as easily. Let's define distressed property for which you may prospect and hope to make money. You buy at a discount to 2010 lowered appraisals and profit is your reward for providing liquidity and risking cash and credit to illiquid transactions.

As we define distressed property, we're looking for modern buildings that can be occupied or rented without major sinkholes for cash. We're not looking for old, falling-down wrecks that cannot provide someone quickly with a place to live or a place for their business.

When you pay cash, you change an illiquid situation to a liquid situation by giving up the use of your cash to do a good deed. You change that unresalable situation into a done deal in hope of making a profit, your reward. Otherwise, you might as well hold on to your cash, because cash is king in a recession. Why risk it if there's no reward? That would be a disservice to yourself, your family and your heirs, right? I don't think your family or your spouse would want you to take foolish risks that place them in jeopardy.

A recession is the time to buy distressed property, not a boom. Look for modern properties near the major metro job centers, within commuting distance of those jobs.

Dollar Devaluation and Inflation in Your Future

Hidden dollar devaluation affects oil. Why? Worldwide oil production is priced in dollars. If the dollar goes down, oil prices go up – it's common sense.

Devaluation may be defined as a drop in purchasing power of the national currency unit – (the dollar). The dollar, like all other world currencies, is fiat money. Fiat is the word for law (required) to accept dollars for all debts public and private. Fiat money is not backed directly by gold and silver, but by confidence in the currency unit.

Was your family ever surprised by unexpected guests at mealtime? If so, probably more water went into the soup and the portions became smaller to accommodate the outsiders. Who are the monetary outsiders? Today is the government of Red China, which holds about \$1 trillion in its monetary reserves, along with another \$1 trillion worth of other nation's currencies (Euros, Yen, British £, etc.)

Back home, dollars are being issued in increasing quantities for bailouts, government backed loans, housing industry rescues, automakers, insurance companies and the list goes on and on. Costly stimulus programs seek to create jobs by disrupting the normal downward business cycle and shorten cycle's duration.

Nearly 10% of the work force nationwide is out of a job, so leaders in Washington feel it is absolutely necessary to stimulate the economy and create jobs. The May 2008 First Stimulus program under Bush did not work. The May 2009 Stimulus Program hasn't had much success - other than stimulating car sales with its \$1 billion "Cash-for-Clunkers" program. Unemployment is still climbing and pushing double digits. A third Stimulus program is now being contemplated.

Hidden-From-View Effects

All these programs require the issuance of many dollars and taking on of much debt. All of this excess money and debt services to devalue the purchasing power of the dollar, in a slow, hidden manner. Still, foreclosures are at an all time high. Unemployment is the highest since 1983. Current car sales with costly rebates may be borrowing from future car sales and car replacements in the future. Many of the so-called "clunkers" being scrapped are still good cars, though more than five years old, still drivable and useful. The average age of a used car in the USA is nine and a half years. Does it seem wasteful to scrap and junk cars that are five years or older but still drivable and useful. I have cars and trucks that are more than 10/20/30 years old that are still drivable. If they were crushed into scrap steel cubes and shipped to China to be reprocessed, it would still be very costly for individuals and governments to replace them, especially with taxpayer money.

When devaluation occurs, inflation is not far behind. Inflation may be defined as a decrease of the purchasing power of the currency unit (the dollar). Sound familiar? Consider this. As inflation occurs, economic history indicates that interest rates will have to rise, as dollar holders will demand an "inflation premium" to lend money. Keeping interest rates low keeps loan activity from expanding.

Who Would Have to Pay Higher Interest Rates If Interest Rates Rise?

The biggest borrower is the government. Fears abound that the number one borrower would crowd out many smaller borrowers standing in line. Also, if the government had to pay higher interest rates on all that money borrowed – past, present and future – government deficits might soar.

China might like getting higher interest returns to loan the US \$1 trillion or to roll over the \$1 trillion already owed by the USA. So would Japan and other people loaning money to the USA. Potential retirees might like it, so would those who are trying to fund future college educations for their children. Parents can't fund college educations earning only 1% interest on their savings. Higher interest rates would motivate a higher level of savings.

Leaders and economists complain that citizens "save too little" in the USA. What's their method to get savers to save more? Simple. They cut interest yields to near zero. That really makes potential savers enthusiastic, doesn't it? Then, they're surprised when people don't save as much!

Forecast: Higher oil prices will cause energy prices to escalate for travel and for utilities. When utility monopolies charge more to customers to cover their higher energy costs, that adds to inflation in the coming years, if you are willing to think medium term or long term, not just thinking short term.

Therefore, it is easy to see that based on economic history, there may be unintended consequences, a hidden inflation tax, resulting from cheapening the US dollar – dollar devaluation. Yet, those who study fiat money inflation in France and in other countries are not winning any popularity contests among the leadership.

Therefore, if Forecaster economic analysis makes sense to you, it is up to you to strategize and bear responsibility and take actions for the well being of yourself and your own family unit in 2010 to 2015 and beyond. It may be fruitless to wait for help from Washington. Government has no money of its own other than what it can get from taxpayers and borrowing.

The Biggest Gamble

If you believe that there is hidden inflation just below the surface and that continuing dollar devaluation and manipulated lower interest rates near zero are going to continue than doing nothing is the biggest gamble you can take!

A better strategy would be to own some hard assets, own a home and rental property (not rent-controlled), have an interest in a proprietary business, invest in education to learn some useful skills, maybe own some gold and silver coins, resalable antiques, art work and collectibles whose prices will go up with unavoidable inflation.

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