

A REAL ESTATE STOCK PLAN

Getting out of the bleachers and into the game!

This report attempts to weigh the pros and cons of active real estate investment versus passive stock investment alternatives. Let me first begin by saying one word to you: Enron. Well, what did you expect? Yes, this report is pro real estate, con stocks. How appropriate!

This report is going to explain or attempt to give the stock market investors a basic one-on-one interview with a real estate portfolio manager who has consistently made a profit on 100% of the investment products that were actively chosen and managed. Never a loss, always tax advantaged and sheltered.

This report will not contain any high-tech, gobbly-gook, stock market charts, graphs, trends, analyst picks, projections, company reports or insider tips. In real estate, you personally have the power to develop and create all of those things yourself and I for the life of me could never trust other people's second hand opinions or publicly disseminated information to get the jump on the herd.

Now if I were a company officer, or majority voting shareowner, or a paid agent of those individuals, I might think differently, for the simple fact that I am getting the jump and I can make some dinero if I know something the majority does not. Overall, people are told to build companies so they can sell it to the public through offering pieces of their company to the public in the form of stock. So I know from the very beginning that the owners of companies are selling me a piece of paper which they say is worth a certain amount of whatever value a dollar is worth at that time.

Let me see if I understand this. I transfer my hard-earned cash and I pay a fee and/or commission to do this, and you give me a fancy certificate and a promise that this represents a solid investment decision. No way!

I've seen people lose their life savings counting on other people's paper promises. I am not comfortable sitting on the sidelines rooting for everyone else to make money for me. Who are we kidding? I would be last in line and get paid after all of them. And just how are they getting paid? Well, I see it as this: They get me to buy more fancy certificate paper, backed by more promises, while at the same time encouraging me to hold onto the previous certificates. All the while, the value in those is slowly liquidated to pay salaries and expenses of the inside corporate raiders of my blind faith and trust.

Boy, am I a skeptic. Let me shift gears here and take everything back I just said because often what I just said is dead wrong and two words will prove me wrong quite often. Those two words are “Blue Chips.” Many companies do provide value, dividends and growth opportunities. Who am I to talk bad about the stock market? Don’t get me wrong. It’s an awesome institution and a complex and intricate financial function of the world’s economy. Everyone feels the effects of this juggernaut and many people are afraid to upset the world powers by saying anything that will get the ire up of the kings of Wall Street, so they just clam up and slump into obscurity.

To heck with that attitude! Take control people. Actively manage your own hard assets and get off your *#!, and quit rooting for the other guys out there to make money for you. I’m not saying if you’re 60, 70 or 80 years old, that I expect you to go out and start swinging hammers and saws. That’s not necessary.

Use your brain at any age to control directly the events that are going to add to the bottom line. With real estate, you can use relatively simple math and your two eyes to see the whole picture. No charts, graphs, prospectuses, opinions or guesstimates. You invest less than ten miles from home in your own neighborhoods so you know all about market activity and current local economic conditions. You know prices and demand for your investment, as the local classified section of your newspaper is an instant picture of your markets fundamental outlook. Your competition advertises its position and you react immediately.

I’ll tell you this: I don’t stay up late reading small print, trying to find all the loopholes in company reports and federally mandated quarterly and annual filing and disclosure documents. That is a total waste of my time because in the end, nobody makes any promises to anyone. You in the end invest at your own risk; that is made clear.

Even when they catch the bad guys that use fraudulent accounting procedures and cook the books and shuffle assets and count them twice or commit some other white-collar crime, the fact remains that the money is gone and your out of luck.

Well folks, I’ve never been out of luck and I never will because I decide what is a good deal. I buy my houses below market price, add value to them in a hundred different ways and capitalize on those assets in many different ways. It’s hands-on, eyes and ears open, active, direct control. There’s no guessing, no hoping, no cheering, voting or scanning for loopholes in incomprehensible legalese boilerplate.

I circulate, select and direct. I negotiate and use my own strategies and tactics. I rehab valuable hard assets and use them to generate income, build equity, access tax-free cash, shelter other income from taxation and lower my tax brackets.

Almost everything in my real estate business is deductible, so my gains are my gains. I can defer paying gains with 1031 exchanges and a host of other legal and ethical, easily understood ways to secure my future profit picture. You don't need a license to do this, just a pulse.

If you feel real estate investing is more difficult than stock market investing, I believe you are wrong. It's much safer to the average individual who doesn't have all kinds of crazy options, puts and calls, true insider tip-offs or hours and hours of time to hopefully understand more than the next guy in order to sell your stock to the next person for more than you paid for it. Unless you're accredited, you should be institutionalized.

With real estate, if I buy my investment property with owner occupied, 10% down financing, I am using 90% loan-to-value leverage. I don't suggest you do that in the stock market. If you make a little timing error, your investment career could be over.

So to put it in general terms, \$1,000 controls \$10,000 and \$10,000 controls \$100,000. Now if I buy a house that costs \$100,000 and I put \$10,000 down to control it and the market appreciates 10% the first year, I get my \$10,000 back and keep the asset. It becomes a perpetual money machine and I don't have any of my own money at risk.

There are closing costs but they are deductible as expenses. Here is another point. My rich Uncle Sam wants me to provide housing for his citizens to live in, so he let's me take **depreciation** on my investments to encourage me to rent them out to others. This explains a tax benefit in real estate that helps us common people who actively participate in the management of the investment who are not making over \$150,000 a year in adjusted gross income.

For example, if you pay \$100,000 for a house, Uncle Sam says that this house will slowly disintegrate to dust in 27.5 years and for non-residential real property, 39 years. The land will always remain so they say 20% of the purchase price was land. So you only depreciate the house's value. In this case, that would be \$80,000 and \$80,000 divided by 27.5 years = \$2909.09 per year for 27.5 years. That benefit can get you in lower tax brackets by reducing your taxable income on other income, such as your regular job or other investments.

Thus, you save today's dollars, and when you sell the house years later Uncle Sam recaptures that amount but it is later on, after your investment has increased in value and the dollar hasn't. Believe me, it helps you a lot more than it ever hurts. A good C.P.A. will use it to make you money now. Note: A 1031 tax deferred exchange can delay repayment of capital gains indefinitely.

Here's how to play a decent game of real estate investment! Buy something at 20% below its market value. This is not hard to do. It may take you, as a new investor, 3-6 months to find it.

Your learning curve will let you acquire under market value property at faster and faster rates from months to weeks to days. It takes practice. Use the book, *Magic Bullets*, to move fast.

So you find a \$100,000 property and you put down 20% (investor rate) as the down payment plus \$2,500 in closing costs. The bank loans you \$80,000 to buy it. If you're getting older, then pay someone to clean it and paint it. Get the bank to reappraise it for its true value of \$120,000 or more. Take out an equity line and get all your money back, tax-free. Now let the tenants pay it off for you while it goes up in value and throws off positive cash flow, and shelters itself from taxation. This is not hard to do – www.magicbullets.com will walk you through it.

I personally believe the hardest thing to do is to hold on to the real estate investments that you do acquire. What people tend to do is get tired or itchy and they sell the goose. When you sell, you do get a lump sum of cash but now you have to go out and find more. This can become like a revolving door. You have to keep going in and out of the market buying and selling again and again. Sound familiar?

If you just buy and don't sell your investments they will grow in value through inflation, appreciation and equity accrual/mortgage reduction. Eventually, you will own them free and clear, and with 4 or 5 houses throwing off \$1,000 or more each month, you will have approximately \$60,000 a year in retirement income. I know my parents could live on that...how about you?

Then as you get older, sell one, preferably the one you have spent two of the last five years in as your primary residence. The reason for this is because Uncle Sam says that you don't have to pay any capital gains on the sale of your primary residence until you have exceeded \$500,000 in sheltered gains.

For example, let's say you just sell one home. You're in your early 60's and you have had the house for 25 years. Let's assume you paid \$100,000 for it and it has appreciated at a moderate rate of 5% each year on average. For those 25 years, its present value now would be \$338,635.31. That is a capital gain of \$238,635.31. You pay zero, *nothing*, in taxes on your profit, using your exemption up to a \$500,000 lifetime cap for married couples or \$250,000 for single folks.

The entire \$338,635.31 is yours to do with whatever you please. It is 25 years later, so your buying power as a result of 3% inflation has eroded your buying power but think about all the people who have no real estate to fall back on. Ouch! That's no way to live.

No surprises here. You can actively manage your own properties for years and if you do it right and use my methods of acquiring tenants, you just might get lucky and get a lifetime tenant. I'm not going to let you say that it's impossible because I'm going to agree with you that it's probably not going to happen.

Here's what the statistics say (no charts or graphs). People move on average every 5 years so you should reasonably expect to have at least 5 different sets of tenants.

That's fine because every 5 years, you can update your properties appearance and raise the rent to match current market conditions. Long-term tenants always seem to keep you from achieving a true market rent if they stay for 10-15 years, and they do stay. I see it all the time and I still get market rent...you'll see!

The figure that says people on average move every 5 years applies to you too. If you get itchy to move or sell, then do the following: Don't sell anything! Just use equity lines to acquire your next, nicer house and don't move further than 10 miles away from your investments. Even the pros blow it on this one.

If you pay attention to what I just said, you should retire comfortably, with more money than the average person ever needs. You have a choice.

I will use a true story to illustrate my point. My wife's uncle bought 2 1/2 acres, in what his buddies from his telephone company job used to say was no man's land. He bought it for \$15,000 in 1972. He financed his 3 bed/2.5 bath/2 car garage, ranch style, block home construction for an additional \$32,000, for a total of \$47,000.

Well, he sold that house in 2001 for \$365,000. He paid no commission (I showed him how) and he paid no capital gains. That's a real life story of a \$318,000 tax-free gain or profit on a \$47,000 investment. He did hold it for 29 years but he has no money worries and lives a life of ease and comfort.

So my point: Collect a few houses and don't sell them. That is the Magic Bullet of this story!

I'll admit to you that I've shorted the stock market a few times and never lost on stocks either, but there are way to many closed-door conversations that I'm not allowed to listen to. I have a feeling that there is a reason for that. Can you guess what it is?

I learn more, make more, have more, do more and help more by actively managing my investment from less than ten miles away. I know all the players and there are no closed doors. My business associates are true friends, who help each other make money by providing excellent value for our customer's dollar, and that customer is my tenant.

My rentals are superior to my competition, to the degree that my wonderful tenants remain tenants for life, or they buy it from me if I decide to sell.

Rental real estate is a rewarding investment. It is not just the money; it's the value that you personally deliver.

I choose to live with purpose, passion and desire. I can't do that in the stock market. How can I help you personally by investing in stocks?



Author Biography:

Dan Auito is a dual-licensed real estate agent and appraisal assistant. In addition to being a 20-year veteran of the United States Coast Guard, Dan has also founded a non-profit drug prevention corporation, a real estate consulting group and is the author of "Magic Bullets in Real Estate." This 300-page power-packed book (due out in early July 2004) comes with a website (on line in July 2004) that further supports its readers.

Please visit with the family at www.magicbullets.com we look forward to seeing you!