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What Are You Waiting For, America? Look At Buffet!

By Steve Snyder, Loan Consultant

Famed Money Manager Peter Lynch is perhaps best known for his timeless wisdom that you can beat the pros by focusing on stocks of companies where you either work or shop or have some other edge. But a more relevant Lynchism today is this gem:

Ignore the headlines! That's no easy thing with all the negative media. How do you tune out all the chatter and ink on recession, housing, sub-prime woes, foreclosures, the credit crunch, rogue traders, insolvent bond insurers, $120.00 oil and nukes in Iran? It's enough to make you sit on your thumbs and wait before making any big moves, but what, exactly, are you waiting for?

There has rarely been a moment in history when you couldn't scare yourself into doing nothing. And yet, as Lynch observed nearly 20 years ago, "in spite of all the great and minor calamities that have occurred... all the thousands of reasons that the world might be coming to an end--owning stocks has continued to be twice as rewarding as owning bonds," a top reason to not buy stocks. In Lynch's view, if you don't already own a home that should be your first investment, since an owner-occupied home is generally always profitable. Through a spokesman, Lynch reaffirmed these views to me regarding the housing debacle and all.

When prices are falling, few people have the discipline to buy stocks, a house, gold, art or any other asset. But those who do pull the trigger excel in the long run. As John D. Rockefeller famously said, "The way to make money is to buy when blood is running in the streets."

Start with stocks; they have been pummeled this year. GDP braked sharply last quarter and there has been plenty of panic about a recession. The Federal Reserve has been slashing short-term interest rates this past spring at the fastest rate in decades. And rates today are very good. But if you stick to your steady, diversified plan while everyone else is retreating, you will be happy years from now. For one thing, Fed rate cuts always lift the economy eventually, and the stock market typically starts responding just as headlines get gloomiest. Sure, the market could fall again before recovering. But the recession may be half over already! Usually the media tells us we are in a recession and have been in it when the worst is past. Or we may avoid one altogether. You just never know.

As for housing, certainly some skepticism is in order. Formerly sizzling markets in Florida, Nevada, Arizona and California probably haven't seen the worst headlines yet, though they may well be close and "Jumbo" mortgages, those more than $729,500.00, are likely to remain artificially high for a few more months while banks work through their credit issues. But let's say you are emotionally ready to be a homeowner. Its time to get serious- before an inevitable rise in interest rates wipes out your advantage.

The thing that will make home prices stop falling is the very same thing that will push mortgage rates higher. So anything you gain by a further drop in prices might be offset by rising financing costs. Consider a typical Lamorinda home that sells for $900,000.00. You put down 20% and get a 30-year fixed-rate mortgage at today's best conforming jumbo rate of 6.000%. Monthly principal and interest come to $4,316.76. Let's say that 12 months from now the same house goes for 10% less, or $810,000. But by then the recession is history and the Fed is jacking up rates to stem inflation. If mortgage costs rise .875%, to 6.875%, your monthly payments would be $4,256.90 and you would have saved almost nothing.

Meanwhile, home prices might steady and sellers might become less willing to negotiate. And you have spent a year living someplace you would rather not be. It's more complicated if you must sell before you can buy. But that log jam won't persist forever, and if it appears you'll be trapped for a few years, try to refinance at today's lower rates.

The rate as of this writing on Sept 26 for the Conforming Jumbo is 6.000%.

Risks always seem most acute when the headlines give you ulcers. But that's exactly when you should think long term and get off your thumbs and act. People like Warren Buffet and the big boy and girl investors are actively buying now along with the small individual investor. And also investors buying pools of the foreclosure properties are extremely active. As we all know, one thing has a track record that is hard to dispute: Investor buyers always lead us out of the bottom of cycles for as long as we can look back in history. We are starting to look upward once again. It is the right time to both purchase and finance property, either for personal residence or for an investment.

If you waited a year to buy, you would have saved very little, spent a year living some place you'd rather not be, and missed out on a year's worth of tax benefits from owning real estate.

If you have any questions about the financing of a residential or commercial property, give me a call. I will be glad to help you and answer your questions.

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