Berkeley Investment Advisors

Real Estate Brokerage/Retirement Planning

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**Investment Newsletter – September 2005**

This month's newsletter comes in response to hurricane Katrina which has the potential for a large economic impact. I want to share with you the attached graph showing the performance of my Long Term Value Portfolio (which clients began investing in last March). Clearly we were positioned well to benefit from the supply disruption. Although it may sound like hearsay to a diehard real estate investor, my point here is that there are other ways to make good returns even when decent real estate deals are nearly impossible to find. Flexibility is the key.


Returns for the period since inception: 3/14/05 – 9/1/05.

| Long Term Value | S&P 500 | Remember, future returns may differ substantially from past returns. |
|---|---|---|
| 22.08% | 2.11% | |

Most experts agree that worldwide asset prices are high and expected returns going forward are low. This is especially true for Real Estate in the U.S. In the current Seller's market, it is very difficult to buy something that has a high enough return to compensate for the risks of the current environment.

Katrina has caused serious energy shortages in the U.S., which is causing further energy price rises as the market tries to balance supply and demand. There is a potential for a lot of money to be diverted to energy costs and rebuilding in the Gulf of Mexico.

The Federal Reserve (Fed) will continue raising rates to squeeze out the speculative froth in the real estate market regardless of Katrina. The press is already talking about a pause from the Fed to counteract the effects of Katrina. Don't believe it. The Fed is already behind the curve on fighting inflation and since monetary policy works with a long lag (at least 6 months), they probably need to raise interest rates another .5% this year. The yield curve is near to inverting – meaning short term rates will exceed long term rates. Historically this usually means there will be a recession. If a recession does not materialize and/or inflation heats up, you can bet long term interest rates will be moving up along with the short term rates.

In this situation you need to be careful and patient. Position yourself to avoid big risks and be ready when opportunities arise. My recommendations are:

1. Sell real estate in overpriced markets;
2. Trade into houses in NM that can be leveraged to pull out money, or
3. Buy value added real estate opportunities such as undeveloped land (in retiree destinations);
4. Pull out as much cash as possible (i.e. refinance) while rates[1] are low so you'll be ready to buy with cheap funding when the real estate correction happens;
5. Invest in the liquid securities though Berkeley Investment Advisors so you can continue making good returns while we wait for opportunities in real estate to reappear.

## Contact Information


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[1] Make sure you borrow at a long term fixed rate – I recommend 10 years.