

TOPIC

Beware the Double Dip

ADVICE

What can we learn from a double dip of ice cream? Yes, ice cream. Answer: “too much” has consequences. For example, too much, too fast causes immediate brain freeze. Or too much itself causes a stomach ache a little while later. Or too much, too often causes weight gain over time. Or all of the above may happen.

Real estate is no different, and it is suffering from the same symptoms. We’re hoping that the intense “brain freeze” of a market-halting credit freeze will end soon. We’re suffering through the nauseating “stomach ache” of plummeting transaction activity. And we’re finally coming to the realization that we’ve “gained weight.” Pricing and leverage ratios (i.e., our waistlines) are bloated, and numbers based on them simply don’t work any more.

In both ice cream and real estate, the same human flaw drives us to the double dip: unrealistic expectations with consequent disregard for the risks. You want that double dip because ice cream is so good, right? In the same way, you want that high double or even triple-digit return in real estate. But that second scoop carries much more risk than the first. So, too, with incremental returns in real estate.

Let’s be honest. High double and triple-digit returns are anomalies. The laws of financial physics, like the law of gravity, will always prevail. And in today’s market, we are seeing it prevail.

The issue now is how to move forward. First, be satisfied with one-dip returns. If you are content with a single, you will find every now and then that your server gives you a bonus dip.

Second, lose weight. I urge you, the individual investor, to start a diet and exercise program immediately to work off those extra real estate pounds. Few can do it on their own. Most need a trainer, at least for a while, to assess the situation and get them back on the right track with a sustainable program. Call an advisor with the right expertise and get started today.

As for the broader system, I don’t know how much weight it needs to lose. Regardless, prepare yourself and beware the other Double-Dip (i.e., Recession).



Robert L. Loftin, III

JD, CPA, CFP

bob.loftin@elytonsolutions.com

Elyton Solutions

1710 2nd Avenue North
The Phoenix Building
Suite 106
Birmingham, Alabama 35203
205.533.9261
elytonsolutions.com

