

## RISK AND REWARD - STOCK VS. REAL ESTATE

In a perfect world, your investment portfolio would contain a combination of Real Estate, Stocks, Bonds, Mutual Funds and Cash providing both long-term and short-term instruments. Diversification of your assets is key to riding out the peaks and valleys of investment performance. In today's changing economic environment, understanding your exposure to risk will ultimately define your expectations of reward. For many of us, the largest investment in our hands consists of our primary residence and (hopefully) a market invested retirement account.

More and more retirement accounts consist of real property in an effort by savvy investors to diversify and protect against market volatility. Real estate has the advantage of being tangible and easily understandable; you can see it, touch it and modify it to your own specifications. All investments go through cycles and what is hot today may be ice cold tomorrow, just like the weather in New England.

Numerous studies exist comparing stocks to real estate and the winner on a percentage basis, in the long term, is always stock. However, there are distinct disadvantages and performance is not the only measure to be considered.

Real estate beats out stock on leverage. Since real estate is easily mortgaged, the return on the money invested out of your pocket is higher than if you had not used any leverage. Traditionally, the rate of borrowing on real estate is also lower and longer-term than stock secured borrowing. And let's not forget that mortgage interest is deductible regardless of whether it is your personal residence or your investment property.

Real estate produces annual tax deductions. Annual depreciation for commercial/investment property, property taxes, and operating expenses are all deductible against the rental property income. This has the effect of lowering your taxable exposure during each and every year of ownership. What if your real estate is actually your personal residence? You have the added benefit of a roof over your head and market appreciation over time. The bonus for personal residences is a \$250,000 exclusion from capital gains tax per taxpayer upon the sale of the property and the exclusion can be used every two years as long as the property has been your primary residence for two of the last five years. Sale of stock will be taxed without exclusion at 15%. Dividends are taxed at ordinary income tax rates. Try sleeping under that pile of papers!

Real Estate is less volatile than stock. The wild swings of the market based on irrational responses to third party meddling do not affect real property. Location, location, location beats out stock every day, if you have the intestinal fortitude to suffer through *toilets, trash and tenants*, a reward awaits you; slow and steady wins the race!

