

STRUDWICK
Wealth Strategies
“Innovation Equals Opportunity”



THE CORONA GENERATION
&
THE ULTIMATE EXURBS

By Barry Strudwick

SPECIAL DOUBLE LENGTH REPORT INCLUDES:

NEW ACTION IDEA: THE EQUITY ACCELERATOR
PLUS
OUR THOUGHTS ON
DEFLATION & REAL ESTATE INVESTING

Okay, enough already! It's time to call Otto The Orkin Man! Last January, (while the Dow was at 10,000), we had a hunch something we called “*The Cockroach Effect*” would put the kibosh on the Post 9-11 stock market rally. Nine months later, journalists and analysts are *still* crawling out of the woodwork with yet more dirty laundry. We don't need to tell you what happened to the stock market.

The bruising of the national psyche from this tidal wave of bad news has been even greater than we had reckoned. More is yet to come as the

“IPO Spinning” scandal could be ready made for *Court TV*.

With scores of investors alienated from Wall Street, alternative investments like real estate are moving to the forefront, because they are more tangible than stock stories.

One way to play these trends will be to migrate past the comfort zone of Suburbia to the Exurbs of small town America and even to the *Ultimate Exurbs*...vacation and retirement real estate outside the United States. Shades of Chevy Chase! One new trend we see emerging is a retirement and vacation theme with a salsa beat as The Pepsi Generation is heading south of the border to Central America.

The stateside real estate boom is a by-product of deflation, because it causes interest rates to plunge. Deflation is causing a real estate boom offshore as well, because it's has boosted the purchasing power of the dollar. We suspect the offshore version has greater true investment potential for investors. We see the Pepsi Generation linked via the web and cell phones seeking another stay at the beach by retiring offshore where it's still affordable. Distilled down, it's like the Corona ad on TV where the guy sits and sips on the beach using his cell phone to keep the rain out of his beer. Cynicism about the market and the wealth effect created by the domestic real estate boom are accelerating this trend. But

it's just starting. Meaning there is plenty of time to get in before the beach gets too crowded.

Like the Major League Baseball strike several years ago, a growing legion of people are finding alternative ways to invest their money. Just as there was summer without baseball, there are investments outside of Wall Street. Some simply just don't want to play the stock market game anymore. Others don't think they have the time to wait for it to rebound.

Real estate is the prime beneficiary of this shift. Witness the strong showing of REITs this year, but the psychic desire for hard assets aside, the real driver here is the **growing deflationary current**. Over the past four years we have been building a framework of investment logic for a world dominated by deflation. Here are our latest additions to this series with emphasis on how it will impact real estate.

Thought #50. Better a lender than a borrower be! Deflation radically alters the basic logic of real estate investing relative to the inflation driven formula of the 70's.

Caution: *Excellent investment opportunities exist in real estate, but only if you understand the impact of the shift from inflation to deflation.*

The real estate boom of the 70's and early 80's was the result of inflation

brought on by the Vietnam War and a tax code that favored personal ownership of real estate. Real estate was simple. All you had to do was lock in a 6% mortgage and then sit back and watch as Jimmy Carter's inflationary economic policies made mortgage rates jump to 12%. Effectively, the government paid you to borrow. ***Is this a great country or what?!*** Even better, you could "leverage" your equity by as much as 20 times by putting as little as 5% down and increase your tax bennies to boot. With inflation the optimal real estate investment strategy is maximum borrowing, or even better, using OPM or "Other People's Money."

With deflation, the opposite is true!

In today's environment you want to be a lender because "real interest" spreads are very high. In addition, you'll get paid back in more valuable dollars.

Now even if you're not in a position to profit by lending, here's an **action idea** to consider:

Thought #51. Plunging interest rates and a flight from the stock market have sparked a local real estate boom. But offsetting gains in replacement properties make these profits an illusion. Rather than "buy up" in a bubble, the deflation savvy strategy is to "pay down" using the Equity Accelerator!

Oops, I've done it again! Even if you have just refinanced your house in the past year, it's time to refinance again; but this time resist the **“old” inflation strategy** of pulling out equity and increasing your debt. Instead use the **“new” deflation savvy strategy** of accelerating your payback by switching to a 15-year amortization.

Although I just refinanced my house last year, I've just refi-ed again, but this time with a 15 year amortization. Not only was the 15-year rate significantly lower than the current 30 year rate (5.6% versus 6.2%) but also the improvement in **equity buildup** is amazing! In a 30-year mortgage it takes 20 agonizing years to reach the “crossover point” where more than 50% of your monthly payment goes to reducing debt. But with a 15-year mortgage the crossover point is in just 3 years!

Here's how it could work for you:

Let's say you have a \$275,000 home with \$25,000 of equity and a \$250,000 30-year mortgage at 7.5%. Total annual payments would be \$21,000 of which only about \$2,300 is a repayment of principal. The remaining \$18,700 is all interest.

By switching to a 15-year mortgage you could get an even lower rate of 5.6%. The faster amortization schedule will bump up your total annual payments to \$24,700, but this increase is all just “forced savings.” If we net

out the savings factor, the true “net savings” on interest expense is about \$4,900 the first year. This amounts to almost a 20% return on your invested equity of \$25,000! And each year the return **improves** because you're paying down your debt faster.

A word of warning:

While the powers that be in Washington would dearly love you to stimulate the economy by pulling equity out of your house and squandering it on unnecessary consumer spending, that's a **Sucker's Play**. You've already paid your taxes. Don't make yet another contribution to the cause by frittering away the equity in your home. Clearly this domestic rally is sparked by falling interest rates, not stronger demand. A weaker job market or spike up in interest rates could easily cause gains to vanish quickly.

Resist the temptation to pull equity out of your house and increase total debt.

Costa Rica Anyone?

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Now, let's set off on our excursion...

Thought #52. The impact of deflation on real estate abroad is more powerful and will be longer lasting than on U.S. properties. International opportunities are turbo-charged by the strong U.S. dollar.

The U.S. real estate boom has been caused by deflation and the resulting fall in interest rates. But to capture the full effect of deflation you must also be able to purchase assets in another market where the increased purchasing power of the dollar can be realized. To understand this better, let's first look at the dynamics of the U.S. real estate market.

Let's look at the impact of deflation on residential real estate in your hometown. Since the supply of local housing is relatively fixed in the short run, slight shifts in factors affecting demand can have a large impact on prices. The main factors here are jobs and interest rates. Jobs create the **local demand** for housing. Interest rates impact the size of monthly payments that people can afford. If the local job market is stable, deflation (lower rates) drives up real estate values in a local housing market in the short run. This is why housing prices in Baltimore are up 37% over the past two years. Longer term, if deflation impacts the local job market by forcing plants to shut down demand fails and the impact of rate drops is thwarted. Witness the housing

markets in Houston and Denver, which were only up 10% over the same period and have borne the brunt of deflation via the collapse of the energy trading industry (Enron, et. al)

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As any homeowner anchored by kids and schools recognizes, rate driven *local market gains are an illusion*, because the price of a replacement property has also spiked by the same 37%. Unless you have the luxury to purchase into **another market**, the only net change of these interest rate sparked gains will be the increase in your real estate taxes.

Thought #53. The greatest opportunities in domestic real estate will be to those who can gaze beyond the local horizons and venture beyond Suburbia to the Exurbs.

Because falling interest rates affects all property in a local market equally, the strategy is too sell high in the local market and buy low in a second

market. You can do this by arbitraging the difference between suburban and exurban real estate markets.

Noted futurist Harry Dent (www.hsdent.com) makes a convincing case for a long-term trend--rapid appreciation in exurban real estate as technology and retirement frees more people from the Urban Core and the Suburban Doughnut. It's really pretty simple: lower cost housing, less congestion, lower crime and need we mention...lower taxes will increase demand. Freed from the constraints of jobs and children, people will flow to the highest rate of return on their *retirement dollars*.

Action Idea:

Own offshore real estate inside your IRA.

Did you know you can purchase offshore real estate inside your IRA account?! This is the idea behind The Omni Asset IRA.

Last month I drove through the beautiful Shenandoah Valley. While getting my fill of home cooked country ham and grits, I happened to look at a local real estate flyer. The properties were ½ the cost of similar homes in Baltimore and ¼ the cost of DC. Dent's Exurbian Thesis at work! Beyond the local commuting range of the major Metro areas lies a higher

quality of life at a lower price. I had the fleeting thought, "Wouldn't this be a great place to live if only you could make a living there." In reality, the telecom revolution now makes many locales, such as Staunton and Lexington, Virginia viable for many self-employed people.

More importantly, the soon to be retiring Baby Boomers haven't started to focus on this yet. Once freed from the constraints of a commuting radius, they will flee crime, congestion, and taxes to seek out lower cost areas with a higher quality of life. *The Great Awakening of Retirees* will spark a huge real estate boom in domestic exurban markets.

Thought #54. Even greater gains will go to those with the vision and gumption to invest in the Ultimate Exurbs...Offshore retirement communities in locales like Costa Rica, Panama, Mexico, and even Guatemala!



The Ultimate Exurb

Put on the pith helmet! The logic here is pure **Deflationary Economics 101.**

To capture the value of the 30% increase in the purchasing power of the U.S. dollar, you must purchase hard assets valued in a currency that has fallen relative to the dollar. Remember the 1980's Japanese real estate spending spree here in the United States? Same logic here. [Offshore real estate](#) offers this opportunity to people holding strong dollars *today*.

There is also a second part of the equation as demand for this real estate is poised to explode. Just as Dent forecasts an increase in domestic Exurban real estate demand once the Boomers start to focus on retirement, we predict a "life-style" cost benefit analysis will drive demand to the offshore markets as well. Here's why:

With 401(k) account balances decimated by the stock market crash, Boomers are starting to focus on the harsh economic realities of what they will actually be able to afford in retirement. [Buying on the beach](#) at 25 cents on the dollar makes a lot of sense, especially when you're just a cell phone or a mouse click away from family.

However, the floodgates of demand won't open up until the average retiree wises up to how accessible, affordable, and easy offshore living and investing actually is.

This means there is still time to get in early.

Let's clear up a few common misconceptions. Investing offshore doesn't mean renouncing your citizenship like some tax kook or going native. ***The trend we see emerging*** is for mainstream Baby Boomers to sell The Big House in The States and then downsize to a condo. A portion of the profits are then used for a second home offshore for half of the year. It's the old Florida approach but this time you *change planes* in Miami.

Profiting from this growing mega-trend doesn't mean you personally have to contemplate moving or retiring offshore. I personally fully intend to live out my days here in the States with my children, and hopefully, grandchildren. But I can profit by investing in some of the larger scale projects offshore. This also doesn't mean you have to buy a lot, build a house, and be a long distance landlord. [The opportunity for equity investments in early stage real estate opportunities abound.](#)

Thought #55. Health care is a critical determinant of offshore real estate demand for retirees. Contrary to popular belief, the quality of existing services is already much higher than is generally perceived and improving rapidly. Look for demand to spike as this perception shifts. Also look for opportunities in the health care arena offshore.

For our thesis of *The Ultimate Exurb* investment to hold true, safety, low cost, and low taxes aren't enough. The retiree market will also require high quality and affordable health care. Markets like Brazil, Mexico, and Costa Rica already have U.S. quality healthcare ... at a fraction of the cost.

Here's a true story:

Caught without health insurance in the States, my old friend Steve just elected to have his cancer treatment in Brazil. He took the same CAT scans, MRI, and PSA tests. He also had a U.S. trained surgeon. His total cost for the hospital and surgeon? \$5,000 vs. \$35,000 in The States. The happy ending to the story? Equipped with a cell phone and e-mail, he then recuperated in a five bedroom villa on the beach at a cost of \$960...for a month!



Steve's Brazilian Beach House Bargain

What about health insurance if you're living abroad? For about the same amount as your Blue Cross/Blue Shield coverage, you can also purchase [medical insurance](#) that covers you worldwide with a rider that provides

for a "medi-vac" flight back to the U.S. if you ever need it.

In 10 years when the Boomers start retiring *en masse*, quality health care will be readily available throughout Central America. As a real estate investor you want to be ahead of this wave. Health care specific opportunities are available as well. We've recently heard of several projects for American retirees on the drawing boards focused on building large retirement (500 acre plus) communities centered around modern health care complexes. We are intrigued by the potential here and we'll be monitoring opportunities carefully.

Summary & Conclusion

The Nobel Prize winning work of *Modern Portfolio Theory* preaches the key to controlling risk and maximizing returns is "diversification" both geographically and across asset classes. Both domestic and international real estate can have a place in your portfolio. Most research shows the optimal mix of international assets is between 20% and 40%. A portion of this should be in real estate. *In a deflationary environment, you'll maximize the purchasing power of the dollar by investing offshore in non-dollar denominated assets.* Using concepts like the [Omni Asset IRA](#) to invest in offshore real estate today, can put you into the game today ahead of

the retirement wave tomorrow. However, be especially vigilant on your selection of partners and/or advisors in any offshore venture. These can be shark-infested waters, but a little common sense can go a long way!

Another "Re- Fi" Idea

Why not look at "refinancing your term life insurance. One of our term-life insurers currently has a "special" going on which effectively reduces their cost of term life by about 20%. Even without this they're one of the lowest and best in the business. This offer ends in November. So if you're feeling mortal, act now to lock in these great rates for the next 10, 15 or 20 years!

As always, we're here to help you sort through your options. Feel free to give us a call at (410) 727-6444.

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