



Bill Gorman helps investors become financially independent by showing them how to recognize decision making opportunities.

**BILL GORMAN'S**

**ORANGE COUNTY HEADS UP!**

W.R. Gorman & Associates | P.O. Box 325, Brea, CA 92822 | (714) 255-9998 | [wrgorman.com](http://wrgorman.com) | Fall 2005

## KNOWING WHY YOU CHOOSE TO TAKE – OR NOT TAKE – ACTION

# Achieving CLARITY in a TIME of UNCERTAINTY

Never during my 40 years as an investor and real estate broker has there ever been greater volatility. Nor has there been a time when traditional methods of evaluation have been so ignored.

What are the choices? What will provide the greatest security and/or opportunity for profit? Times such as these are when fortunes are lost or made. Unable to make sense out of what is happening, many investors freeze like deer caught in the headlights of an oncoming car.

True peace of mind can only be achieved by evaluating all available options, then choosing those that best suit your specific needs – both financially and emotionally.

So what has made today's market so difficult to analyze? After months of research and reading, I've reached what I believe is the nexus of the issue:

**The coming dollar crisis has skewed the real estate cycles.**

Greenspan sees the continued increases in prices as a "conundrum." But I don't perceive any mystery at all, the answer is very simple – The United States government has created too much money.

Richard Duncan in his book, *The Dollar Crisis: Causes, Consequences, Cures* offers the best explanation. He begins Chapter 17, "Understanding Interest Rates in the Age of Paper Money," by stating:

*"In early July 2004, the yield on 10-year U.S. treasury bonds was 4.9% and market participants were nearly unanimous in expecting it to move considerably higher. They were spectacularly mistaken. The yield fell below 4% in late September. During that period, the world's central banks were creating too much paper money to allow interest rates to rise. In this new age of fiat money, the rules have changed. From now on, the supply of money will be at least as important as the demand for it in determining interest rates."* (p. 290)

Duncan reached this conclusion based upon the following observations:

- 1) The United States is no longer operating on either the gold standard nor on the Bretton Woods international monetary system.
- 2) We are actually operating on the dollar standard.
- 3) Our government can and does print money.
- 4) Other countries can and do print money
- 5) The U.S. dollar has devalued by 38%.
- 6) The dollar standard could be replaced by an "oil standard," a "eurodollar standard" or by any similar standard based upon any other country's currency.
- 7) Federal rates cannot control mortgage rates.
- 8) As proven in Japan, adding dollars to the system does not necessarily stimulate the economy.
- 9) In some countries, 0% is paid on savings.
- 10) China, which buys so much of our debt, might stop propping up the American dollar, if and when that country becomes a self-sufficient world power.

At the end of his book, Duncan presents five possible scenarios for the future:

1. A protectionist backlash against free trade, resulting in a trade war similar to that which occurred during the Great Depression.
2. A U.S. asset price battle (as interest rates fall toward zero) that drives property prices so high they can't be financed even at very low interest rates. This is similar to what occurred in Japan at the end of the 1980s.

*(continued)*



(continued from front)

3. A meltdown of the under-regulated US\$200 trillion derivatives market. (Two hundred trillion U.S. dollars is roughly six times global GDP.)
4. A loss of nerve on the part of policymakers that deters them from undertaking ever more unorthodox economic policies, resulting in a "deer in the headlights" kind of policy freeze.
5. A decline in interest rates to 0%, or very near 0%, as in Japan at present.

He then goes on to state:

*"Any one of the first four scenarios could undermine the dollar standard, but the final scenario, where interest rates fall very near 0%, would certainly deal it [the dollar standard] a fatal blow..."*

*"Exactly how these events will unfold is impossible to forecast; nevertheless, the eventual outcome is within sight. The dollar standard is inherently flawed and increasingly unstable. Its demise is imminent. The only question is, will it be death by fire – hyperinflation – or death by ice – deflation? Fortunes will be made and lost, depending on the answer to that question." (p.312)*

So how do these insights and projections apply to owners of investment properties in Orange County? During recent months, the question of whether to hold, refinance, exchange or sell has become increasingly complex. You need to look at all of the facts – not just at what an individual property is "worth" or where to put dollars gained from a refinance, sale or exchange.

Go back to the basics and review your entire financial situation in terms of not only where you stand now, but also what may or may not happen over the next three, five and ten years. During this review, think about:

- **All current and potential cash-flow sources to cover both risk and profit opportunities.** Look at what dollar amounts can be expected from not only wages or benefits from pensions/social security, but also earnings from savings and investment properties; income from bonds, notes, stock dividends; and pay-outs from IRA's, annuities and similar accounts.
- **Optimization of All Net Worth Components,** including cash and savings on-hand; equity in real estate owned (sole ownership as well as TIC's and other forms of group ownership); the current value of stocks, bonds, commodities, notes and similar holdings; and the cash-out value of insurance policies, annuities and other investment instruments.

- **Need for Protection from... or Willingness to Take a Risk** regarding the consequences of economic changes caused by inflation, deflation, a depression, or, even, an act of nature such as an earthquake or tsunami. Also consider such items as a pending due date on a note; how an interest rate increase may affect cash-flow and value; the inevitable cycling of prices and cap rates; and what will happen if there is a shift in perceptions and the emotional cycle.

All of these factors and probably others not mentioned need to be taken into consideration. Avoid, too, getting bogged down in "the waste piles of irrational exuberance information." Although the evaluation process appears daunting, you cannot afford to get caught like "a deer in headlights."

Now, more than ever, an informed, third party evaluator may be needed to guide you through the complexities. Simply reviewing everything with an outside consultant may provide the clarification needed to achieve desired profit margins, to protect against potential losses and to help you have peace of mind.

Run – *don't walk* – to the phone and call (714) 255-9998 for an Asset Analysis. There are no costs or obligations. You have everything to gain and nothing to lose – except, perhaps, those sleepless nights spent tossing and turning over the quandary of whether to buy, hold, refinance, exchange or sell.

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