

Stop Thinking That Your Home is the Best Investment You'll Ever Make

By Ric Edelman From *The Truth About Money*.

Your home is not an investment at all. It's merely a place to live. And yet, many people continue to say, "My house is the best investment I ever made!" Whenever I hear this, I inevitably discover that their home is the only investment they ever made.

To demonstrate, say you bought your home in 1990 for \$150,000 and sold it 10 years later for \$500,000. That \$350,000 profit represents a gain of 233%. That's seems like an awesome return by anybody's standard.

But is it really? During the same 10-year period, the Dow Jones Industrial Average grew from 2700 to over 11,000 — a gain of more than 300%. Thus, the stock market performed even better than this fictional house.

But if you're a real estate investor, you might argue that the house could have been the better deal. Why? Because when you bought that \$150,000 house, you didn't need \$150,000 in cash! You merely needed a down payment of 10%, or \$15,000. Then, that \$15,000 cash outlay grew to \$350,000 - and that's a total return of 2,333% — far outpacing the measly 275% earned by the stock market.

This is cheating, of course, because in that scenario, it's not the house that produced such profits, it was the leverage, i.e. the fact that you borrowed money to buy the house. If you wanted to, you could have borrowed money to invest in stocks. And if you had put that same loan into stocks instead of the house, you would have accumulated a lot more than \$350,000!

Of course, doing so would have been highly speculative, because you must repay the loan even if the investment goes down in value. As many investors - in both stocks and real estate — can attest.

I am not suggesting that you go out and borrow a huge amount of money for the purpose of investing. In fact, I refuse to allow my clients to borrow money for such a purpose — and that includes investing in real estate. But why, then, do I say it's okay to borrow money to buy a home? Because your home is not a real estate investment. It's merely a place to live. You buy a home because you love it and because you want to live there — not because you think it will grow in value. If it does, consider yourself lucky, not smart.

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