

REMOTE CONTROL RETIREMENT RICHES

JULY 2019

BENEFITS:

ROTH 401K VS. TRADITIONAL 401K

SHOULD I
BUY NOW?

ISN'T A
RECESSION
COMING?

THE CALIFORNIA
EARTHQUAKE
AND OTHER
NATURAL DISASTERS





May 18th

EXPO RECAP

Our last ICG 1-Day Expo took place on Saturday May 18th. We had hundreds of people in attendance.

The attendees comprised various levels of experience, from beginners to experienced.

As always, I took a good amount of Q&A throughout the day. I always enjoy the questions and remind everyone that no question is a “stupid question”.

Market infrastructure teams were at the event to present. The Atlanta market was reintroduced after a break of many years, and the Atlanta team enjoyed being at the big, lively event and interacting with investors all day, as well as presenting from the stage.

Scott Webster from All Western Mortgage described regular FNMA 30-year fixed loans (some at just under 5%, which, for investors, is a low rate).

The rates are even a bit lower now, in July, Scott also described loans available to people who can't get the FNMA loans, by virtue of owning more than the FNMA limit. He also outlined loans available to foreign investors.

Many new investors joined our QUICK LIST, to whom we send property sheets when we get them from the various markets, as well as event invitations and updates.

People also joined the Membership area on our website. The Membership area is constantly populated with podcasts, FAQ's (Frequently Asked Questions), and other useful information. There are also webinars on specific subjects offered, as well as special one-on-one “Connect For Success” meetings with me. For more details, please email us at info@icgre.com. You can also see information on our website www.icgre.com/MEMBERS.

The attendees enjoyed our guest expert speakers: attorney Brett Lytle, Esq. spoke about the mistakes of rushing to create LLCs too soon, especially when living in the state of California. He explained how to protect our assets in various ways and at what stage LLCs can fit in. Weiming Peng explained 1031 tax-deferred exchanges and reverse exchanges, and how they can benefit investors. Mary Jo Lafaye talked about how reverse mortgages have become quite different than the previous impression we used to have about them, and how they can play a solid role in people's retirement plans.

Many of the attendees have registered to the next 1-Day Expo, on Saturday September 7th. We will host the most relevant markets, have a new set of expert speakers, and of course lots of updates and Q&As.

SHOULD I BUY NOW? ISN'T A RECESSION COMING?

This is a question I get all the time these days. After all, it seems logical. We have a fairly strong economy at the moment, many real estate markets are priced quite high (in fact, too high for us to want to buy there). The logical conclusion for many people is that a downturn is around the corner.

There is certainly a general cycle of ups and downs. However, we have to remember that the main driver of future growth and profits for us is the mere fact that we bought a brand-new home in a good metropolitan area in the Sunbelt states, where the numbers work as of now. Then we financed the home with a 30-year fixed-rate mortgage for which, as we have said many times, neither the monthly payment nor the loan balance (which shrinks steadily due to principal payments), EVER keep up with the cost of living. This is the main driver for our future wealth and safety.

Buying in a market where in 2019 the numbers work (a decent balance between rent and price), starts the clock ticking on the slow erosion of the fixed rate loan year after year, month after month. Add to that the very low rates of July 2019, and this is an excellent growth package for your future.

What happens if there is a recession? Well, as we have seen in the very strong recession of 2008-2011, not all markets are affected equally. During the 2008-2011 recession, Arizona, Nevada, Florida and Georgia, showed great price decreases. However, Oklahoma and Texas did not. You never know if the exact market you are buying in will be affected by a recession, if one should come.

In addition, we have seen throughout history that even if a market is affected by

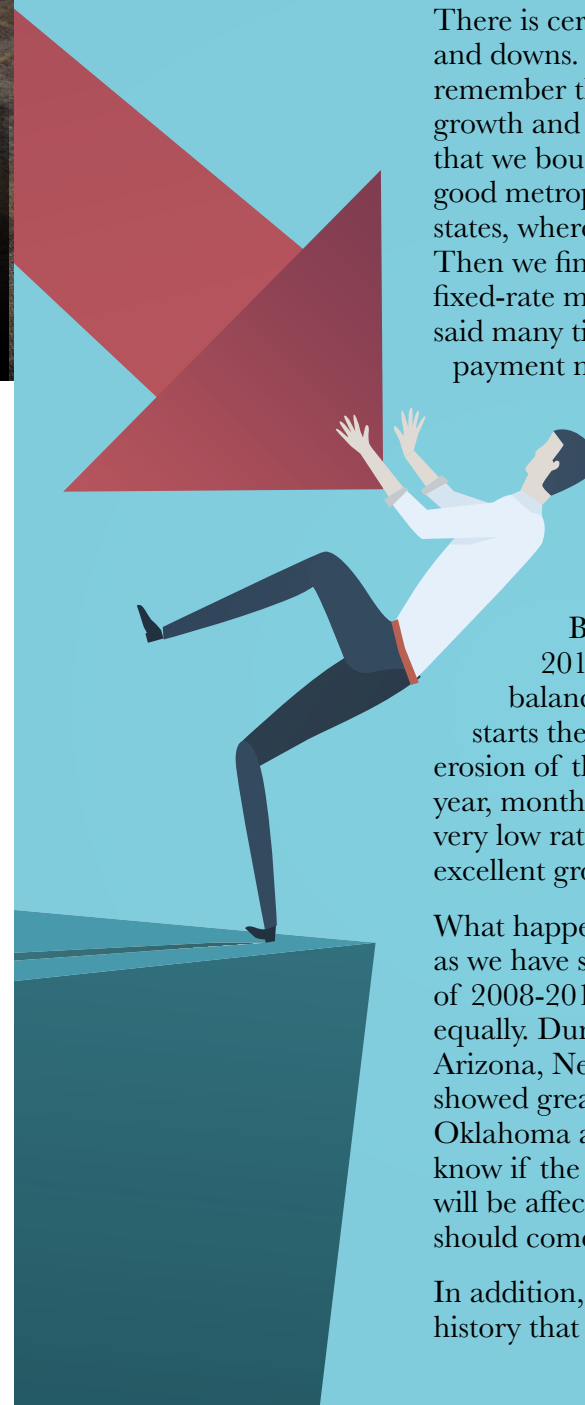
a recession and prices go down, they rebound back, and in most cases the rebound exceeds the pre-recession high. At least historically that has been the pattern.

Remember also, while time passes until a recession comes, (if that happens), during the recession, and then during the rebound, your fixed-rate loan keep being eroded by the cost of living, and also its balance gets reduced due to principal payments.

In addition, a phenomenon I have observed in every past recession that I know of is: rentals are BETTER during a recession. Why is that? Suppose you have a tenant in a single-family home. A family. They may be saving up to put a down payment on their own home, so they can stop being tenants. During a recession there is usually great economic fear. People are afraid they will lose their job, or that their business may falter. Usually, people delay plans to buy a home during such uncertain times, and remain as tenants. This actually increases occupancy and makes rent yields higher. I have seen it every time.

So even if a recession hits and you own homes, the solution is to do the hardest thing for a human being to do: nothing! Just sit there, get your rents, let inflation keep eroding you loan, and the tenant pay the mortgage payments, which also have a principal pay-down component.

The question “should I not buy now; in case a recession comes?” is not a benign question. I have seen cases where people used this question to not get started. I have met friends 15 years later, after one had started buying and built a nice portfolio, while the other friend never got started. The regret is usually deep and the situation quite sad for the person who didn't get started.



BENEFITS:

ROTH 401K VS. TRADITIONAL 401K



Lucian Ioja is a partner at Fountainhead Advisors in Newport Beach, California. He has been in the financial services industry for 20 years. The main focus of his company is working with High Net Worth families, helping them design the blueprint of their financial life to, maximize their wealth, minimize their tax exposure and optimize their retirement income streams over their lifetime.

The Roth 401k is the newest addition to the government programs, available to consumers who save for retirement.

While the traditional 401k is a deferral of income, the Roth 401k is a take income now, pay taxes and save. There is no income restriction as there is on the Roth IRA, anyone can contribute.

I like to look at all sides of the cube. Just like a Rubik's cube has six different colored sides, financial products and strategies have multiple sides that need to be examined and carefully considered.

When working with clients, the most important question I ask, of any product or strategy they are considering is, does it work well today and under ever changing economic conditions will it work in the future? A financial product or strategy that can be made obsolete by the federal government or by changing economic conditions is not a good product or strategy. Thus, we arrive at retirement planning which is a 20 to 30 year accumulation period and 20 to 30 year retirement distribution period. It's a long time and many things can and will go against you as you plan and work with your money.

The government came up with a solution, traditional 401ks for retirement. Today the maximum contribution is \$19,000 annually, deducted from your income, no taxes to be paid today but taxes due in the future.

For example, if you grow \$19,000 for the next 20 years at 8%, you will have \$88,558. Taking the \$88,558 as income in retirement, a tax will be due at whatever

tax brackets are at that time. Assuming today you're in a combined 30% federal and state income tax bracket, the \$88,558 taxed at 30% leaves you with, \$61,990 in your pocket. What some advisors or people believe is that most will be in a lower bracket when they retire. I have yet to find one client of mine that's in a much lower bracket when they retired.

On the other side the Roth 401k, you pay the tax now and save the remainder. Paying \$5,700 in taxes leaves you with \$13,300 to save. Now the Roth 401k is different, you pay tax now, grow tax free and take money out tax free.

Is that a good benefit, absolutely! But, lets see the balance at 8% growth in the Roth 401k. \$13,300 @ 8% for 20 years, \$61,990 balance. Hmm, there is no difference between the two plans.

If you're going to be in the same tax bracket in the future as you are today, then neither plan is better.

If you're going to be in the same or a lower bracket in the future, the Traditional 401k is better.

If you're going to be in a higher bracket in the future, the Roth 401k is better.

What's the conclusion? There is no real best choice! You have to test and measure your own situation against what the future could look like, under multiple scenarios to see which road you want to take. Have advisors that can help you navigate and decide which strategy is best for you and your family. There is no one size fits all strategy it all has to be tailored to your specific situation.

If you're going to be in the same tax bracket in the future as you are today, then neither plan is better.



why it's time to buy BATON ROUGE

This is from Michelle Ruston in Baton Rouge: Baton Rouge is the state capital of Louisiana and is centrally located in Louisiana, well inland from the coast. It is one of the fastest growing cities in the United States. The rapidly growing port of Baton Rouge is located on the mouth of the Mississippi River. The port of Baton Rouge is the furthest inland port to house and dock large barges and is one factor in the economic growth in Baton Rouge. These low docking costs and low fueling costs combine with less expensive labor costs to make Baton Rouge the choice for many expanding or relocating businesses for headquarters. Very low property tax, one of the lowest in the US, makes it

a great place to buy property. There are also no state transfer tax or transfer fees on real estate sales. Low cost hazard insurance makes Baton Rouge houses have strong cash flow. The metro area population is roughly 830,000. The median age is 33 and the median household income is about \$52,000. Job growth in the metro area is at 6.5% with unemployment at 4.2%. Both of those numbers are more favorable than the state and national averages. Relative to job growth, the top occupation sectors are healthcare, educational services, retail trade, hospitality and food service, construction, professional, scientific and tech, which includes the massive oil and gas sector, followed by

manufacturing. We have had steady continued job growth, we are diversified in our employment sectors with massive expansion across all sectors. The oil and gas industry is poised to explode in the coming years. Not only in traditional oil drilling and manufacturing but also in the exploration of natural gas and the conversion of energy to using natural gas, a cleaner source. In addition to oil reserves, Louisiana has some of the largest natural gas reserves in the world. The pro-business climate and continued positive job growth trend makes Baton Rouge a very stable and sound investment.

HANDLING WEATHER AND OTHER NEW HOME BUILDING DELAYS

Buying new homes has three “flavors”:

- 1) Ready to buy, already-built homes. These are relatively rare.
- 2) The home is in the midst of being built, to be ready in a couple of months or so. Also, relatively rare.
- 3) The buyer and broker choose a lot, and the builders begin construction of the home once there is a buyer with a contract. This is the most common form.

Under ideal conditions, new homes can take anywhere from as little as 4 months to about 7 or 8 months to build. However, delays can happen for a variety of reasons.

One such reason is weather delays, such as heavy rains, and other weather-related phenomena.

Another possible delay can happen due to local authorities being slower than expected on permits. Usually, in the Sun Belt Metros we buy in,

bureaucracy is relatively minimal. Nevertheless, bureaucratic delays can happen from time to time. Other reasons could be delays in builder’s financing, and other reasons.

Investors instinctively get upset if the completion of their new home gets delayed.

Sometimes this is for a good reason, such as wanting to lock a rate, or preferring to close during a particular season.

Over my long history I have seen builder delays in various markets, from Phoenix to Dallas and others.

As a buyer, I am very tolerant of builders’ delays. If the market is trending up in price, a delay is actually a possible financial gain for me. I have a contract at a specific price. I only put a couple of thousand dollars (usually) as an earnest money deposit. Now if there is a delay and the value of the home is higher than my contract, I made this extra gain while only having a couple of thousand dollars tied up, and being able to use the rest of the down payment money during the

delayed period.

Another thing I look at is where the interest rates are heading. If interest rates are stable, locking is not meaningful. If rates are trending down, there could even be a gain for me due to a delay, by getting a lower rate when the house is ready.

Another subtle point is that we buy new homes so all the components are brand new. If there are delays, the components of the homes could be “newer than new” in the sense that many components, such as the roof, get put on at a later time and this are even newer than we had anticipated.

I see some new investors react to builders’ delays (which are still a relatively rare occurrence) with extreme reactions, even saying they will never invest again. I find it interesting, as logically, in the middle of 2019, all our markets are trending up in price, and interest rate are getting lower.

For me these are merely psychological responses which may not have much to do with actual logic or real financial considerations.

Retirement Riches Testimonials

Daniel K.

I bought 5 homes, all with 30 year fixed rate loans. The fixed rate loans made everything stable, even during the recession. These 5 homes made a difference for me!

Eric H.

Over the years I bought 11 homes in 3 states. They are now mostly free and clear. Last year, at the age of 55, I retired from my high-tech position thanks to these homes.

Liz T.

I have dreamed for years about real estate for investing and supplemental income...With the information Adiel has presented I feel empowered to take my first step in purchasing my

THE CALIFORNIA EARTHQUAKE AND OTHER NATURAL DISASTERS

I am getting quite a few inquiries as to what I think about the recent earthquakes in Southern California.

This may not be a bad opportunity to visit natural disasters overall.

In California, the earthquake Danger is present. A few years ago we experienced it in Northern California, when downtown Napa got badly hit by an earthquake.

Earthquakes could be very devastating, but the point that is most

relevant to a real estate investor is that earthquake insurance is limited, with typically a very high deductible, and overall the coverage is not very good.

On the level of logic, owning a property in California, especially in Earthquake-prone areas such as the greater San Francisco Bay Area, and the greater Los Angeles area, makes little sense. In these areas, properties tend to be quite expensive, and for many people, they are the biggest

source of their wealth.

When the biggest source of your wealth is in danger of being hit by an earthquake AND is weakly insured (if you even have earthquake insurance, that is), it makes little sense to own in these areas.

I have just recently talked to a lady in the San Francisco Bay Area, who has moved out of her home and kept it as a rental, while renting herself. Now she wants to sell the home (in the East Bay in the San Francisco

Bay Area), and do a 1031 Exchange into over a dozen brand-new rental homes in places which are not susceptible to earthquakes.

But aren't there other natural disasters possible in most places? Hurricanes on the coasts (Florida, South Texas, and the East Coast overall), tornadoes (the middle of the country). Almost everywhere there is a potential danger lurking, right?

That is right, but how are those other potential natural disasters insured?

Hurricanes tend to affect a very large number of homes, mostly with precipitation and winds. Most homes affected don't sustain major damage. Some could. Insurance covers hurricane damage quite well, however. That is one big advantage hurricanes have over earthquakes, insurance-wise. Add to that the fact that due to the recent hurricanes, building codes were changed in Florida in various location, making new homes being built like “tanks” – almost entirely from blocks.

Tornadoes are usually much more pin-pointed than hurricanes and statistically hit very few homes. Tornado damage (if it ever happens), is well-covered by insurance. For example, Oklahoma is in the center of the country and is susceptible to tornadoes, yet insurance rates in Oklahoma are quite low. This is an indication that insurance companies don't consider the probability that a house will be hit by a tornado very high.

Real Estate Investments and
Adiel Gorel Presents

Saturday, September 7, 2019

ICG REAL ESTATE 1-DAY EXPO
WITH ADIEL GOREL

EXPERT
GUEST
SPEAKERS



JOE MERANTE

VP of Business Development
National Credit Care



JOSH COOPER

CPA at
An Accountancy
Corporation



JUSTIN FARIAN

CISP® Senior Retail
Sales Representative

FOR MORE INFO OR TO REGISTER, GO TO WWW.ICGRE.COM/EVENTS

ADIEL'S CORNER

Q: I have a trip planned to a market. The broker will meet me but the manager will not be available that day. Should I cancel?

A: No need to cancel. The main reason for the visit is to see the market, understand where and why we are buying, see the subdivisions, and spend a whole day in the car with the broker, asking and learning. This makes your comfort level and understanding of the market increase markedly. While it's nice to meet the property manager if possible, it is the broker who will be most beneficial information-wise. You can always have a phone conversation with the manager at a later date (and perhaps meet them at one of our 1-Day events).

Q: Are single family homes superior to duplexes and 4-plexes?

A: I have addressed this in my PBS program materials, but a short refresher: I like single family homes best. One of the reasons is that they usually rent to families with kids, which makes the tenancy last longer. They also attract a different type of tenant in some cases. One of the main reasons I prefer SFHs is that usually, in good areas, you ONLY see SFHs, and not duplexes or 4-plexes. Usually you'd have to drive to another part of town to see duplexes and 4-plexes, which is likely to be in an inferior area. However in Oklahoma City, for example, our broker, Joe, has convinced the builders to build duplexes in good areas. That narrows the gap in how I view these duplexes vs. SFHs considerably.

Q: I can put a down payment that is bigger than 20%. Should I?

A: We talk about the amazing power of getting a 30-year fixed rate loan. The loan balance and payment never keep up with the cost of living. This is like getting a gift, since the cost of living constantly erodes your loan balance and the payment amount. Since this is like a gift, why would we want to make the gift smaller? I would not put over 20% down, whether I can afford it or not. Even Warren Buffet in 2012 (and he can certainly afford it), didn't want to put more than 20% down. In addition, this conserves your cash and may enable you to build a bigger portfolio faster.