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Investment Management

Volume 1

Published by:
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The Power of Leverage: Home Equity Can Be the Ticket to an Investment Property

The House Team

Your best-performing asset probably isn't that star mutual fund in your portfolio. Most likely, it's the roof over your head.

Residential real estate has been on a prolonged and spectacular rise in almost every part of the country. Odds are that - wherever you are in your mortgage - you've seen a great increase in your home equity.

Rising home values have made real estate a great investment for Canadians. So good, in fact, that a record number of average Canadian homeowners have a plan to multiply that advantage: by purchasing investment property.

In most cases, these people don't have wads of cash on hand to plunk down for a second property. What they have is equity in their principal residence. That translates to assets that they can leverage to maximize their real estate investment potential.

Leveraging is a powerful financial strategy. The idea is this: you can access funds for a downpayment on an investment property by tapping into the home equity that's building in your principal residence. The investment property is managed to provide income to cover the mortgage payments and property expenses. Remember, too, that the interest on the mortgage is tax-deductible for an investment property: another important advantage in building your investment. Many investors keep the leverage strategy going: as one investment property begins to build equity in a rising real estate market, it can be leveraged to purchase another property.

There are many motivations for this kind of investing. In some cases, the investments provide some available income almost immediately. Others see the investment property as a kind of retirement plan: the rent will provide important income at a later date, or the property can be sold to provide a retirement nest egg without the burden of landlord responsibilities.

In university towns, you will often find investment properties that have been purchased by parents. At a time of rising housing costs for students, this has become a sensible strategy: the child has accommodation during their school years, and takes on the responsibility of landlord to other students who rent the extra space to cover the ontairo mortgage.

Investors who are skilled at home improvement will sometimes leverage their equity to purchase an investment property, improve it, and then sell for a profit - progressively building their net worth by capitalizing on both their skills and rising home values. But the most common reason for purchasing an investment property is simply to capitalize on the wealth-building power of residential real estate. Rising home values continue to give you a steady increase in net worth - whether or not you are pocketing profitable rents. You'll only want to ensure that the property will cash-flow to cover the mortgage and maintenance costs.

Independent mortgage brokers now have access to a range of mortgage options for investment properties, and can help you assess your situation. One of the most innovative lenders, GMAC, has a mortgage called iinvest, which makes it easier than ever for average Canadian homeowners to purchase investment properties. In most cases, you should anticipate tapping into your home equity for a 25% downpayment on an investment property. (GMAC's iInvest actually offers approvals up to 85% on mortgages up to $500,000 or $700,000).

How much of your home equity can you access? Let's say you have $80,000 remaining on your mortgage and your home is valued at $280,000. If a bank will loan 90% of the value, then you have access to $252,000. You still need the $80,000 for your existing mortgage, but that leaves you with a potential $172,000 in available funds. You will, of course, want to make only a minimum downpayment, as it makes good tax sense to hold your larger mortgage on your investment property.

Many wealthy Canadians have achieved their financial success by leveraging small assets to create progressively larger ones. It's a great way to fatten an investment portfolio, build net worth, or save for an earlier retirement. Best of all, it's a strategy that's within the grasp of most Canadian homeowners.

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About the Author :
The House Team is commited to providing quality information to help people like you make informed decisions about their mortgage financing needs. The source for your Ontario Mortgage. Looking for a free mortgage calculator? Click Here Mortgage Calculator Ontario

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The 5 Money Making Advantages Of Multi-Unit Investing

Real Estate Investment Club

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Having rehabbed over 470 properties in the last seven years and collected over 600 apartment units I'm often asked, how can I become wealthier faster investing in real estate?

While most investors concentrate on some aspect of single family houses, I was always interested in multi-units (apartments) first, and then single family homes as a means of getting more multi-units .

From the very beginning of my investing in real estate, I liked the idea that a group of people (the tenants in a building) would get together and pool their money to pay down the mortgage on a property, and I liked the idea that they would also pool their money together to pay for all of the maintenance work for a building.

I especially liked the idea that they would give an owner so much money that the owner would have a bunch of money left over at the end of every month that could be used to either re-invest, save or to go out and have a good time with.

Essentially, I like the idea that other people were willing to help make me wealthy. I liked it even more when I started using management companies to manage my properties and no longer had to have contact with my tenants.

I soon came to realize that I could also wholesale, retail, pre-foreclosure, rehab, subject to and lease option apartment houses as well.

I also realized that there were certain advantages that investing in multi-units buildings had over single families.

The first was cash flow. Cash flow on a multi-family is always greater than that of a single family. Simply because you have more rents coming in.

The more units you have under one roof, the less risk you have. If you have a single family house and you lose your tenant, you've lost 100% of your income. In some instances, this could be your entire profit for the year. If you had a three family and lost a tenant, you still have two rent coming in to pay your expenses.

Economies of scale are in mulit-unit buildings. If you have six single family houses opposed to one six family, you have six roofs to be replaced or repaired, six lawns to be maintain, six tenants spread out through out your city or town.

In your six family you have one roof, one lawn and your tenants are centrally located. Economies of scale are in your favor.

There's a lot less competition than there are in single family houses. Why? Because no one is out there teaching how to do it and all the single family guru's make flipping single family houses sound as easy as chewing gum in the dark. The smart investors put multi-units in their portfolios along with single family houses.

Because of the bigger cash flows, you can afford to hire management companies to manage your tenants, thus eliminating that hassle while you go out and do what you do best (or should do best), find and finance them.

Your pay days are a lot bigger when you finally sell your property. This is because an apartment complex cost more than single family homes, because of this they obtain a greater dollar amount of appreciation. For example, a $100,000 single family house will in a market that appreciates 10% will be worth $110,000 while a three family house worth $300,000 in the same market (10% appreciation) will increase to $330,000. That's $20,000 more money in your pocket!
You've know a few people who have made a lot of money flipping single family houses, but if you think of the all the people you know who have become extremely wealthy through real estate, you'll realize that they did it through owning multi-units (apartments).

These are the five biggest advantages to investing in multi-units, there are many, many more. If you are interested in creating more wealth at a faster rate, adding multi-unit to your portfolio is the way to do it!

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About the Author :
Starting out as a struggling landscaper with no experience in construction, David Lindahl has earned well over a million dollars renovating more than 470 houses for resale. He also owns over 38 apartment buildings with over 628 units with a monthly cash flow equaling what many people make in a year! Reprinted with permission from www.reiclub.com.

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Bonds: When and When Not to Buy

Ronald Groenke

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Bonds are issued with a fixed, stated interest rate which determines the semiannual interest payment to the bond holder. Those fixed interest payments, payable until the maturity date of the bonds, are constantly valued by the market relative to alternative investments to gain the same income stream.

Since the interest payments do not change, the weight of the valuation is reflected in the market value of the bond. If interest rates in general go up, an investor can have the same income stream with a smaller investment. Thus the value of the bonds goes down. Conversely, if interest rates in general go down, an investor would have to invest more to obtain the same income stream. In that case, the value of the bonds goes up.

So a bond's price will fluctuate with the financial market interest rates. Many factors affect the market interest rate, such as the world wide demand for capital and the willingness of major governments to inflate their money supply. Probably the primary factor is the action taken by the Federal Reserve as it sets the Federal Reserve Funds Rate. If the Fed Funds interest rate goes up, bond prices will go down. It is like a playground seesaw with bonds on one end and interest rates on the other. If interest rates go up the price goes down and vice versa.

We can use this information to determine the best time to buy bonds. Will the Federal Reserve continue raising interest rates or will they decrease interest rates? As of the beginning of the fourth quarter in 2006, the consensus seems to be that the Federal Reserve is done raising rates. If the economy slows down too much, the next action would be for the Federal Reserve to reduce rates which would cause bonds to gain in value. The time to buy bonds is when interest rates have peaked.

Longer term bonds usually have a higher interest rate than shorter term bonds due to the greater uncertainty associated with a longer time frame. If this is not true, you have what is called an “inverted yield curve,” which in the past has forecasted a recession. The near term negative aspect of a recession out weighs the risk of the longer time frame.

My appraisal of the bond market at this time leads me to believe that short and intermediate term bonds are attractive.

Never, NEVER, buy tax free municipal bonds in a retirement account. That would be like throwing out the baby with the bath water. The earnings in a retirement account do not incur current taxes. So you want the highest return compatible with your risk tolerance. Only hold tax free bonds in a taxable account. For retirement accounts that are tax deferred, higher yielding taxable bonds are the best choice.

Percentage of bonds holdings in any account should be based on the age of the account holder. The closer one is to retirement, the more bonds one should hold. In retirement a typical mix is 30% equities and 70% bonds.

If the return from bonds in retirement is not sufficient to maintain a steady income then one could augment the income stream with covered calls on the equity portion of the portfolio. Covered calls can return an additional 12 to 15 percent.

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About the Author :
You can learn more about covered calls from the Options Industry Council www.optionsindustrycouncil.com and bond investing from The Bond Market Association. www.investinginbonds.com For more information, here are a few sites where you can buy and sell bonds: www.fidelity.com www.Schwab.com www.scottrade.com.? Ronald Groenke is an author and expert on covered call options. A former stock novice, Ron has made a living exercising stock options for over a decade.

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