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18th, 2007

Rev N You with Real Estate

Real Estate Vs. Stocks - REVISED!

Dear Dave,

Sorry for the 2nd version of this month's edition of Rev N You. A reader of ours quickly corrected us on our faux pas. When calculating Average Annual ROI for real estate, we made the mistake of excluding compounding! Whoops! So, we have sold all of our real estate and are moving into stocks! Thanks LW for the correction.

Please see below where we show figures that are correct. We apologize for our mathematical inaccuracy.

Real Estate Investing Vs. Buying Stocks

by Dave
Peniuk

Which has the better ROI? A REVISION!

At the end of the day, your investment portfolio should be diversified. It's not about holding just real estate or just stocks. But, most of you aren't satisfied with that answer. You've asked for more analysis on which investment vehicle - Stocks or Real Estate - has the better Return on Investment (ROI)?

I won't get into all of the qualitative reasons why I love real estate investing. If you've been reading our newsletter for awhile you know that "kicking the bricks" and having control over the outcomes are two of the main reasons I put more focus on my real estate portfolio than my stock portfolio. For today, I'll stick to numbers.

Before we go into the numbers, I need to explain a few things. When I refer to **real estate**, I mean an investment property, not a home. Someone is paying rent. Also, I am going to use B.C. average values over the last 15 years. B.C. prices have surged in the past 5 years, but the 10 years prior to that were far from stellar. So, we are looking at averages.

On the other side, I look at the widely used **S&P 500** as the stock average return. It's often used as an indicator of the broader market and includes both growth companies and value companies along with NASDAQ and NYSE traded companies. And, for simplicity, I am assuming that the investment property garners enough rent to cover your mortgage, taxes, management, insurance and miscellaneous other costs but doesn't put any extra in your pocket. Thus, it's a "neutral" cashflow property.

So, with this REVISION, instead of giving you percentages to work with, I want to show you what your \$50,000 investment would look like after 15 years in real estate or 15 years in a balanced portfolio reflective of what

has been achieved by the S&P 500. Without going into where I made the mistakes in the previous edition, \$50,000 in real estate will become \$358,000 after 15 years (this includes appreciation and principal paydown). This works out to an average annual return of 15.1%.

Conversely, the \$50,000 invested in the S&P 500 would become \$451,000 after 15 years at an average annual return of 15.8%. And, maybe even more importantly, the equity you have built up in S&P 500 stocks ONLY surpasses your real estate equity during the 11th year. See the [following for details](#). Also note, in the Annual ROI including Principal Paydown column, your Real Estate ROI shrinks over time. But, because you are building so much equity, it would be wise to pull some of that money out and purchase another property to increase your returns again.

But, before you stop reading Rev N You and give up on real estate, remember that the average investor (according to Money Sense, November 2007 issue) only gets about 7% return on investment (BEFORE FEES). Which means that after 15 years your \$50,000 would only be \$137,000.

With real estate, to maximize your returns (using leverage) pull out equity as it accumulates and buy something else. This makes it a very powerful investment. I stand by what I said in the original version: **Real estate is a much stronger investment because of leverage**. Your investment is usually a maximum of 25% of the property value and can be leveraged over time into substantially more equity, a renter is paying down your mortgage, and the value of the property over the long term, almost always goes up.

The story doesn't end there. And, as I said at the start, it's not about choosing one over the other every time. It goes back to your goals. And, although real estate is the clear winner in our view (and experience), the choice is up to you to include it in your portfolio. If you buy right (which isn't that difficult if you do your research, much the same way you need to research when buying stocks or mutual funds), over the long-term you will build up a substantial amount of equity with real estate.

I have included a couple of good articles below which detail some of the pros and cons to both investment vehicles so please check them out. Choosing to own real estate as an investment, or even choosing to own your home can, and should, require some work. It's not an "easy" game that you can simply jump into. But, if you determine your objectives, do your research, and save some money for your down payment (or find other's who have it), you can go a long way with your dollar in the real estate sector.

Check out the following articles for a continued battle between real estate and stocks. [CNN Money's Article](#) has a lot to do with why people don't

choose real estate. And as a counter article, you can see [Ozzie Jurock's article](#) here.

Rev N You - Next Edition

Remember to look for our New Year's edition where we WON'T discuss anything mathematical but we will discuss:

- Buying Pre-Construction - Is it Worth It?; and
- A New Year....New Goals?

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