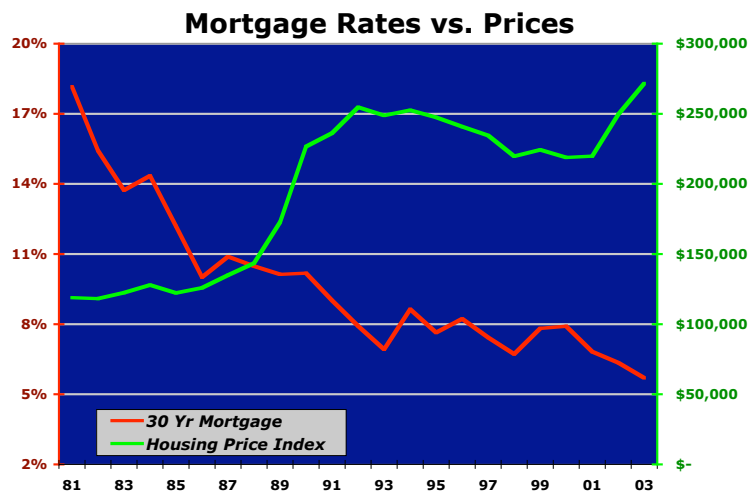


AS I WAS SAYING, RATES ARE HEADED UP, OR DOWN

The business we're in, residential real estate is pretty darn entrepreneurial. There are big businesses, like developers, and there are small businesses, like contractors and architects. There are even individuals, like real estate agents and market consultants (smile). But the biggest part of the business, and one that is thoroughly entrepreneurial, are home sellers and homebuyers. How so entrepreneurial? Their home ownership decisions directly impact their financial security.

Firstly, owners get the deferred savings, and shelter their income from taxes. Secondly, and here's where most of the entrepreneurship comes in, there's the asset appreciation (or price appreciation) of the home. Indeed, for most owners, the main focus is on prices. Because that tells you whether you (and your house) is making a profit... or not... all of which depends on the difference between what you paid and where prices are at today.



What is on everyone's mind is what will happen to the market, particularly values, as interest rates rise. Will they rise? I think so. Based on what? Job growth, a weakening dollar, and a strengthening economy. But please remember how really difficult it is to predict interest rates. In fact, Malcolm Forbes (of Forbes Magazine) was so tired of people asking his opinion of the direction of interest rates, he used to tell a joke about it.

Einstein dies and goes to heaven only to be informed that his room is not yet ready. Says St Peter, "I hope you will not mind waiting in a dormitory, where you will have to share the room with others." Einstein says no problem, so they enter the dorm. St. Peter introduces him to his first roommate, and tells him he has an IQ of 180.

"That's wonderful!" Einstein. "We can discuss mathematics!"

"Here is your second room mate. His IQ is 150!"

"That's wonderful!" Says Einstein. "We can discuss physics!"

"And here is your third room mate. His IQ is 100!"

"Great! We can discuss the latest plays at the theater!"

Just then another man moves out to shake Einstein's hand, saying, "I'm your last room mate and I'm sorry, but my IQ is only 80."

Einstein smiles back and says, "So, where do you think interest rates are headed?"

Is predicting interest rates truly a no brainer? Unlike Mr. Forbes, I have 'No Comment' (thus proving my IQ is over or under 80). Seriously, I agree here with Einstein, not in the sense that predicting rates is simple, but in the sense it is not. And since I don't specialize in this, I listen to others... and then make my guess. The expert whose opinion I value is Bill Gross of PIMCO, who says interest rates will track inflation (1-2%) plus real growth (2-3%) over the next couple years, (so 4-6%).

But, being an entrepreneur, you ultimately have to go with my gut, and guess at where interest rate (or the economy) is going (so, my guess is up, and up slowly).

Having guessed at that, the next question becomes 'How will that affect home prices?'

I don't know, and (unfortunately) I can't easily figure it out... not because I haven't tried. See the chart showing prices and interest rates over the last 30 years: when interest rates went down, prices went up, and went down. And vice versa. If there's a rule, I can't see it. So, no rule, no easy explanation. that's when you have to listen to your gut. And that, all of you home entrepreneurs, is uncertainty. And that rule is: when there's uncertainty, that's when you make the most money... or lose it.