“Naysaying” or Observations on Real Estate Speculating by an Old Fart

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by

Paul Crosby

Yesterday while taking the subway I saw that a bank in Canada was now offering mortgages at 1.99%. I did a double take. How is this possible? Jim Flaherty, the federal Minister of Finance, thought that 2.99% was ridiculously low a year ago and was stoking a real estate bubble. He jawboned the banks into refraining from reducing mortgage rates further. He recently died and his forceful comments have been silenced. Mark Carney, the head of the Bank of Canada at the time, was also worried that abnormally low interest rates were creating a housing bubble. Since then he has taken a promotion and now runs the Bank of England. Housing prices have continued to climb higher.

In 1984, when I was working in the Research Department of the Federal Reserve Bank of St. Louis, one day I went into the reference library and compiled a time series of interest rates running back until the early 20th century. I remember sitting on the floor of the library poring

over the books in disbelief as I saw interest rates in the United States go lower and lower until they hit 0.50% in the Great Depression. Could this be real?

I was born in 1961 and grew up during a period of high inflation and higher interest rates. I remember President Ford and his WIN buttons which stood for Whip Inflation Now—at a time when inflation was considered to be unbelievably high at only 4% per year. I saw interest rates peak at 21% in 1989 when Paul Volker, the Chairman of the Federal Reserve, tightened up the money supply to halt inflation. I also saw Merrill Ottwein, a real estate investor in Edwardsville, Illinois go bankrupt when the shopping center he was developing collapsed under the weight of sky-high interest charges he could no longer afford.

In August 2008 I spent many evenings drinking merlot and comparing notes with a multi-millionaire stock investor living in my building as we tried to understand the firestorm engulfing the financial markets. In January 2009 we attended a big international fur auction where one had a visceral sense of fear in the auction room as virtually nothing was selling at any price. It was clear that it was no longer business as usual in the world economy.

When I moved to Canada in 1987 I was shocked to see the number of condo projects going up around the city. I was sitting at McDonald's downtown one night minding my own business when a poorly dressed man started lecturing me on the wonders of real estate investing. This reminded me of the stock investor in New York who was given unsolicited advice about the wisdom of buying stocks by an elevator operator and promptly sold all of his stocks right before the market collapsed on Black Tuesday in 1929. Shortly after this the Toronto real estate market collapsed and condo prices went down 50%. Maybe I wasn't a fool after all for not jumping in when the man at McDonald's told me I needed to get into real estate. Today Toronto is one of

the world leaders in condo construction with something like 175 projects underway. The scene is unreal—because it is unreal.

Another friend of mine watched his best friend go bust in the late 1980s after his easy riches evaporated when his leveraged properly purchases collapsed and he could no longer fund them. He lent his friend his life savings to help the friend stave off bankruptcy and lost this money forever.

In the early 1990s Japan was gripped by a real estate bubble that made the city of Tokyo worth more than all the property in the United States and the Imperial Palace worth more than the entire state of California. Property prices collapsed shortly afterward.

I predicted the collapse of the U.S. property market and was right. Prices were insane and the market finally collapsed. Financial "innovation" removed the link between lending and responsibility and everyone made wonderful short-term profits by packaging bad loans and pawning them off on unsuspecting pension funds and French widows.

I saw the real estate market collapse in Denver in the 1980s. There were signs all over the city for properties for sale by the Resolution Trust Corporation—an entity that smacked of Depression Era desperation.

I saw For Sale signs all over the town I grew up in southern Illinois when the U.S. housing market collapsed. My brother knew a man who thought you couldn't go wrong and bought one house after another. The man committed suicide when he could not service his debts.

I learned what "see-throughs" were when the Dallas property market collapsed in the 1980s. These were high rise towers devoid of tenants that one could "see through" because there was no furniture or partitions blocking the view.

I have seen an entire street of houses in Montreal with for sale signs in front of them in the 1990s. Admittedly, this was due to political instability during Quebec's referendum on independence. Nonetheless, investing in real estate in Quebec has not been the fabulous experience that it has been in Toronto for the past few decades.

I have seen markets that have stagnated for decades. In Niagara Falls, New York there are buildings that have been for sale for more than a decade. My wife's parents bought a house in Geneva, Ohio in 1979 for US$40,000. Thirteen years later they sold it for US$40,000. Today it is still worth US$40,000. Inflation has gone up at least four times since 1979 and the real value of the house has fallen dramatically.

My brother and I were recently in Altus, Oklahoma re-visiting the town he was stationed at with the Air Force thirty years ago. We drove all over town in disbelief looking at one house after another with paint peeling off the wood and shingles missing. Thirty years ago you could buy a house for US$15,000. Nothing has changed. The town is dying and there is no sense in putting money into maintenance when prices stay the same or go down over time. The entire community has given up.

I studied economics in university in the early 1980s and was taught that interest rates cannot go negative. Thirty years later I saw interest rates go negative. During the financial crisis, banks in Europe were charging foreign customers a fee to hold their money for them at 0%, effectively offering negative rates. Denmark has also recently experienced a period of negative interest rates.

I was shocked during the financial crisis to see reference after reference of nasty firsts since the depression in the 1930s, or since the panic of 1907, or in the 300-year history of the Bank of England as the world experienced a severe financial crisis. It is one thing to experience

something that is once in a generation. It is altogether something else to experience an event or occurrence that is once in 10 generations.

I was in England when Northern Rock collapsed and people lined up trying to get their money out of the bank—a depressionesque bank run that was no longer supposed to happen in an era of deposit insurance and modern finance.

I have read numerous books on bubbles, manias, financial collapses, and economic history. Once you know what patterns to look for, it is easy to spot them. Seventy people showing up to pay twice the asking price for a crappy house in an undesirable part of town is a clear signal that we are well into bubble land. The more things change, the more they stay the same. It takes practice to believe impossible things. This reminds me of the quote from *Alice in Wonderland*:

> *Alice laughed. "There's no use trying," she said. "One can't believe impossible things."*
>
> *"I dare say you haven't had much practice," said the queen. "When I was your age, I always did it for half an hour a day. Why, sometimes I've believed as many as six impossible things before breakfast.*

I have seen an entire generation come of age in a period of ever falling interest rates. Someone born in 1979 would have watched rates go from 21% to zero. This trend has become "normal" for this generation. Most people under 50 in North America cannot conceive of a world with either rising interest rates or high interest rates.

Is what we are seeing in the world today in general and in the Toronto real estate markets in particular normal? Is it sane? Is it rational? Admittedly, the hoopla about Toronto being a world-class city was irritating 25 years ago. Today, we have world-class traffic jams, world-class construction activity, world-class rates of immigration, and world-class appeal. I have

noticed that hardly a week goes by without some reference in the *Economist* to something happening in Toronto or one of its companies or universities. The city truly has become world class. We even have a world-class laughing stock of a mayor.

Since I moved here in 1987 I have seen the city expand to a degree I could not fathom. All indications are that it will continue to expand. We are living in one of the winning locations in the world and should continue to do so for some time. Maybe prices are justified by a constant influx of people and money. Nonetheless, I worry that very simple and very basic ratios of affordability have hit levels that are unheard of. If people cannot afford to buy houses at these prices, how will this continue? Nobody I have spoken with seems to believe that the prices are affordable or explain to me how people can afford to buy at these levels. There's a lot of head scratching going on. And yet the prices keep going higher. Nearly everyone just accepts that what is going on in the city is exceptional and leaves it at that. It is better to join in than to step back and wonder at what is happening.

Everything I have seen and learned over my 53 years on the planet tells me that something is amiss. A banker friend years ago said that he was surprised at the number of people he has seen making a million dollars a year who have gone bankrupt. When we asked how that was possible, he replied "Easy, buy a seven million dollar house."

When I was young and wet behind the ears, I was told not to spend more than 2.5 times your annual income on housing. Over time, like tips at a restaurant going from 10% to 15% to 20% or more <u>after tax</u>, the ratio inched up to 3 times income. Today we have an average household income of C$60,000 in Toronto and average house prices exceeding C$500,000 and trending upward. Simple math shows a ratio in excess of 8 times income. In my old and simple world, an average household income of C$60,000 per year would result in average house prices

of C$180,000 using what I thought was an excessive three times income. Income has not gone up much in the past twenty years. When a friend bought a house near Jane and Dundas 25 years ago it cost him C$180,000. Today it is worth C$500,000 or more and yet his income has not changed by much.

Every fiber of my being tells me something is wrong. And yet, people think this party can only continue and get better. The old way to make money was to buy low and sell high. The new math says to buy high and sell higher. This has not worked through history and probably will not continue forever. The old math said to match the term of the loan to the expected period of time to repay the loan. The new math says to buy something you can barely afford and leave the term of the loan at 5-years because rates can only go lower. The price will go up and the carrying cost will go down. No wonder people love real estate. But, prices are sky high, and we are now effectively at zero. When will this assumption change? One day soon (?) rates will start climbing. Suddenly, the assumption will revert back to locking in rates because they can only go higher.

This reminds me of movies taken from the air of herds of zebra or springbok running in Africa. One moment they are all running one way. The next, the entire herd goes off in another direction. The direction of the herd is about to change and yet people scoff at me when I point out that the historical view of ever lower rates must change as rates scrape the bottom.

As Herbert Stein's Law states: "If something cannot go on forever, it will stop." How high can prices go? How far can house price multiples continue to rise above income? Will gurus soon be telling us that 15 times income is a reasonable amount to pay for a sure-fire "investment." "Investment" by the way is a purely American concept. An "investment" is something that returns your principal with an increment of interest or profit. The rest of the

world thinks of everything in terms of speculation. There are no guarantees that you will get your principal back intact with interest, much less back at all. Everything is a speculation.

I have seen assumptions to buy houses that only reflect the upside. There are multiple calculations done to show how much money can be made. Anger results when I suggest showing what the possible downside might look like under a different set of assumptions. How can one make “investment” decisions when the assumptions are only

a) making money;

b) making more money;

c) making even more money?

I have heard a friend with a house in Georgetown in Washington, D.C. lamenting that he rented his house to someone who worked the system. They could live in the house for up to three months without paying rent before they could be kicked out. When it came time to go to court, the tenants made a monthly payment and the clock started afresh. They lived in this man’s house for more than a year only making four payments.

Can money be made renting houses to tenants? Sure. Is it wise? Probably. For someone with patience, a tolerance for nonsense, a willingness to work hard, a long time horizon, and who does not overpay or get overextended financially I believe it can make sense. Are housing prices too high right now? In most cases, I believe so. When, not if, interest rates go up the costs of owning the house will go up. I believe those who even consider this will shrug and say that they will just raise the price for rent. But, if people cannot afford the rent, they will either default or move. There is nothing stopping people from sharing accommodation or moving home with their parents or finding other ways to live within their budgets.

If costs rise faster than realizable income, the wonders of high leverage and positive cash-flow turn negative. Suddenly, the exit strategy of selling disappears because it will generate a loss and the positive cash flow turns to negative cash flow. How severe this is will be determined the amount of equity in the house and the access to free funds. Higher equity makes it possible to weather the storm. Low equity or a lack of free cash turns this scenario into a nightmare. Multiple houses purchased through leverage multiplies the losses. Maintaining access to ready cash prevents one from having to sell in a downturn. Relying on credit lines is foolish because those lines tend to get pulled or reduced in a crunch. If the banks suddenly change their assumptions about real estate and want to reduce their exposure, rescue money for someone who has used leverage to the hilt can dry up overnight. A friendly banker is an oxymoron.

During the financial crisis I saw the credit limit on my corporate credit card at Citibank in the U.S. cut from US$30,000 to US$3,000 as the bank tried to limit its exposure. Fortunately, I never carried a balance on this card. If I had $20,000 in debt that I could not move elsewhere, I would suddenly be in default. I have read of other entrepreneurs who have seen loans and lines of credit dry up during credit squeezes. Bankers are famous for wanting to lend you an umbrella when the sun is shining and then refusing to when it starts to rain. Having lots of debt becomes a nightmare when credit is contracting in the system.

I have experienced the difficulty and fear associated with being unable to meet financial obligations. I know what it is like to have to meet payroll every week whether sales justify it or not that week. Financial problems are one of the worst experiences one can face in life. I have tried to reduce my exposure over the years because I know how debilitating financial problems

can be. Likewise, I have tried to keep credit lines open to keep from getting caught in a cash squeeze. The number one rule in business is don't run out of money.

When I was 30 I joined Queen City Yacht Club on the Toronto Islands and watched as representatives from a bank repossessed a member's yacht as it was being launched in the spring. The man made the mistake of giving a company in Florida US$200,000 in credit that they defaulted on. They contracted him to print marketing materials. When the sales campaign failed, they took their commissions and salaries and simply closed the company. He spent the next 10 years working as a bone setter in one of the local hospitals and using a large percentage of his salary to pay off his friends who had lent him the money that he lost. He said that he would be unable to hold his head high or ever see his friends again if he failed to repay the money he had borrowed. Many others would have shrugged or moved to another city.

What I would like to see is some analysis of affordability. What happens to the monthly costs if interest rates go back to normal? What is normal? Six percent? 10%? Even six percent is double from where we are today. Hardly anyone has loans that are tied to the expected amount of time it will take to pay off the property. Old logic was that one tied the length of the loan to the amount of time it would take to pay off the loan. In an era of falling interest rates over the past three decades, it was foolish to lock into any long-term commitments. Why tie up money today when it will just get cheaper in the future? This lack of matching financial commitments to the period needed to pay them exposes the owners to a serious risk.

I have watched what happens when money I borrowed in Canadian dollars gets harder to repay as my U.S. income translated back to ever fewer Canadian dollars. The same problem hit many "smart" individuals in countries such as Hungary who borrowed at low interest rates in euros in Austria or Germany to pay for houses in Hungary and serviced the loans with salaries

denominated in Hungarian forints. As the forint when down, the cost of their loans went up. Saving 2% or 3% on the cost of the loan suddenly is no longer a deal when the currency used to pay the loan depreciates by 20% or 50%. A 50% drop in the value of the currency results in a doubling of the amount owed to a foreign bank when paying in local currency. In Argentina in 2002 a severe depreciation resulted in a tripling of the debt burden almost overnight for individuals and companies who borrowed in U.S. dollars. Many people and companies went bankrupt.

A mismatch of currencies or time horizons can be painful and yet Canadian banks hardly ever lend anyone long-term money anymore for housing—most likely because nobody wants to borrow long term money because it costs more. The risk is now being carried by the borrowers—not the banks. Most borrowers do not perceive any risk because they are looking in a rear-view mirror at the trend over the past 35 years.

The banks think they have offloaded risk. And yet…. The financial markets relied on insurance for credit default that was impossible to meet when default became a reality throughout the system. If there is no money to cover losses, the losses will not be covered. If Canadian real estate loans start turning sour in the future, the banks will reduce their exposure to real estate loans. For too long it has seemed that nobody can lose. Real estate is a sure thing. What else explains the mania about real estate?

Many people have explained to me that Canada has not had real estate problems like in the United States. In the United States, there was reckless lending. Here, we are making investments. Maybe. As a dual national (U.S. and Canadian) with roots in both countries, I have come to believe the adage that Canada lags the U.S. by 10 years. I have lived in Toronto for 27 years and have seen similar lags. For example, the United States started putting mini-billboards

along the highway telling which gas stations, hotels, and restaurants were at each exit on the interstate. Years later, Canada is slowly following this trend. Is our real estate crash simply a matter of waiting for the lag to kick in?

I have watched the financial markets freeze up. Banks did not want to lend money to each other in the overnight market because nobody knew who was solvent and who was broke.

I have watched foreign trade collapse as banks refused to issue letters of credit because they did not know whether their counterparts were solvent. Cargo ships that were typically costing US$100,000 per week were being leased for 1/20th of that because traffic dried up overnight.

The bulk of the rise in house prices is a result of falling interest rates. Lower interest rates allow a person to afford a bigger mortgage. A bigger mortgage results in higher bids on existing houses. Higher house prices encourage people to want to take out yet bigger mortgages so they can buy more expensive houses to make yet more money. The cycle is self-reinforcing for as long as it lasts.

When interest rates go up, house prices will go down. It's basic math. At 3% interest, a person could theoretically service a million dollar loan with $30,000 per year in interest payments. This is only $2,500 per month. At 6%, that servicing doubles to $60,000 per year or $5,000 per month. At 9%, someone who thought the house would cost $30,000 per year must now cough up $90,000 per year or $7,500 per month. These numbers are only for the cost of interest with no repayment of principal and do not include taxes, insurance, maintenance, and utilities. A possible scenario is that someone borrows $1,000,000 to buy a basic house (or place to live) under the assumption that the price can only go up and the cost to carry the house remains at $30,000 per year. If rates double (merely going from an abnormally low 3% to a

more normal 6%) and the price of the house falls in the same manner as bond prices, it will now cost $60,000 per year to service $1,000,000 in debt on a house worth $500,000. Now, that's depressing. Debt service cost doubles while the value of the asset halves. Suddenly, the gravy train becomes a train wreck.

It is true that house prices do not move as quickly as bond prices. A small change in the interest rate results in instant changes in bond prices. When prices fall, people can refuse to sell (if they have enough money to service their debts) and prices tend to adjust more slowly on the downside than in financial markets. Adjust they will, though. Just as when prices are going up, each sale at a higher price convinces everyone in the neighborhood that their house just went up in value, sales at lower prices in the neighborhood should convince buyers (if not sellers) that prices are now lower.

I have seen very bright, extremely high income people explain to me that they do not need to make principal payments on houses or cottages. All they have to do is pay the interest. They will make money by selling the house at a higher price. This is classic bubble thought.

At heart I am a contrarian. Maybe it is a function of being left-handed. I see and experience the world differently from others. Maybe it is a matter of watching the movement of herds over time. For years, Warren Buffet, the famous investor and one of the richest men in the world, was ridiculed for not participating in the tech bubble. He stood on the side as people snapped up stocks like E-I-E-I-O Home Furnishings.COM at absurd prices. These companies flamed out and the market crashed. Warren Buffet kept his fortune intact and no longer looked so stupid.

We are living in strange times. For 27 years (starting with Greenspan and the 1987 stock market crash) the authorities have been pumping money into the financial system to avoid a

painful recession. This has been a worldwide phenomenon. Cash has been flowing through the system like never before. It has to go somewhere. It has been going into housing and stocks. Prices are inflating around the world. Even in places like Hungary a basic flat now costs US$50,000. This sounds cheap until you realize that the average income is US$700 per month and the flat costs six times income.

Where will it end?

Politicians in the advanced economies have made promises to their citizens that they cannot keep. (I had initially written rich countries and then realized that this is now in doubt. Many of these countries and their citizens are heavily indebted. They are advanced. Whether they are still rich is yet to be seen.) The social welfare state cannot afford the transfers, pensions, and budgets that greatly exceed tax revenues.

There are four ways out of this mess:

1) Buckle down and pay off the debts through higher taxes and reduced services. This is highly unlikely especially in a democracy. In the 1990s Canada was on its way to becoming an economic basket case. The country raised income taxes to extremely high rates and imposed a 15% sales tax. The federal government got its financial house in order to a large degree by shifting the burden onto the provinces, many of which have become basket cases instead. The federal government claims to be highly solvent and the envy of the world while Ontario, Quebec, and other provinces are verging on bankruptcy.

2) Inflate away the debt. Promise payment of a certain number of dollars and then make those dollars worth less—thereby reducing the debt burden. This is what governments around the world are doing, but people have been accustomed to low inflation and have not realized what is happening. They think they are getting rich through inflated housing prices and stock

prices. Some are. Others are getting poorer by getting locked out of ever being able to afford a house or paying nutty prices for one. One person's windfall is another's mega-mortgage.

3) Declare bankruptcy. Take the course of Argentina or Detroit and simply state that the debts cannot be repaid. This really hurts the economy and is a course most governments try to avoid unless forced to do so by creditors.

4) Repudiate the debt. After a period of chaos a new government takes over and refuses to pay any debts that were incurred under an old regime. The new government did not incur the debts so it is under no obligation to pay them. Tough luck. This is very harsh medicine that typically is applied only after a war or revolution like the Russian Revolution in 1917.

Given the choices above, I believe the most likely course of action and the one being taken by the governments today is to inflate away the debts. When inflation finally gains traction, it can hit with a vengeance. Think tsunami. High inflation will lead to high interest rates as investors try to protect their money. In a world of adjustable interest rates, rates will adjust upward and costs will skyrocket to service debts. Not everyone will be able to service the debts resulting in forced sales of houses. Dumping bad "investments" on the market will depress prices. A vicious cycle will begin with house prices either collapsing or trending down.

A recent on-line weekly newsletter I subscribe to contained a long quote from the ex-president of the Bank for International Settlements. The BIS is the bank for banks around the world. The people heading this institution are some of the brightest people on the planet. They admit that we have entered new territory and that government policy makers are effectively flying blind. The people in charge don't know what to do and are experimenting with new-fangled ideas such as quantitative easing to keep the party going. They are basically pumping

money into the economy at unprecedented rates. Excessive money will eventually show up as excessive inflation. It always has, and I assume it will continue to do so—sooner or later.

In the stock market in 1929 speculators were able to margin their bets 10 to 1. If they put up $1,000, they could borrow $10,000. If a stock doubled, they could sell it for $20,000 and pocket a $19,000 profit. Sweet. When prices collapsed, many went bankrupt in a blink of an eye. A 10% reduction in price would wipe out the initial investment and they would be forced to sell the stock to exit the position if they could not raise money to cover their margin call. If prices fell past their initial investment, loses mounted quickly. The regulators decided that it was not a good idea to let people gamble with this sort of leverage and changed the laws to permit 2 to 1 margin at best. In other words, if you put in $1,000, they will let you borrow $2,000 to buy stocks. These limits have remained to this day.

The real estate markets allow 20 to 1 gambling or even infinite gambling. A typical borrower can now use $5,000 to buy $100,000 worth of real estate. This allows for awesome leverage. I have seen people even borrow the $5,000 down payment elsewhere and then leverage that 20 times giving them infinite margin. In effect, they can borrow $100,000 with no money down. They then lecture me on how much they have made on their "investments." When prices are going up they are geniuses. They will not appear so smart if prices fall and they have to sell.

Leverage works both ways. One of my employees has told me that she and her husband have bought a $600,000 house. I asked what will happen to their payments if interest rates double. She said they could not afford the house then. They can barely afford it now. Sooner or later interest rates will double. What will happen if their payments double as a result of a 3%

mortgage rising to a more "normal" level of just 6%? What happens if rates rise in the next five or 10 years to 14% or 21% that some of us oldsters have seen in our lives?

What is going to happen to real estate prices when rates go up and people need to sell to get out from under loans they can no longer service? The prices are going to go down to a new level. We have seen rates go down and prices double. If rates double, will prices halve? Stay tuned…..

One of my favorite quotes is "check your assumptions." Today, most people live under the following assumptions:

1) house prices can only go up;

2) interest rates will stay low for years to come;

3) inflation will remain low;

4) there will be no wars in the advanced economies;

5) the Canadian dollar will remain near parity with the U.S. dollar;

6) money will remain relatively easy to borrow;

7) no recession or economic downturn is on the horizon;

8) there is not excessive overbuilding of condos in Toronto;

9) rents can be increased if costs go up;

10) China will continue to expand its economy;

11) Real estate is one of the best investments that one can make;

12) The stock market will keep going up;

13) Russia will not start a war over Ukraine;

14) the Eurozone will not break up anytime soon;

Challenging assumptions needs to be challenging. Very few things in life remain the same for very long. Change is a constant.

For fun, simply assume that the opposite happens in each case. What does the world look like?

1) house prices can only go down;

2) interest rates will rise for years to come;

3) inflation will become high;

4) there will be wars in the advanced economies;

5) the Canadian dollar will not remain near parity with the U.S. dollar;

6) money will become hard to borrow;

7) a recession or economic downturn is on the horizon;

8) there is excessive overbuilding of condos in Toronto;

9) rents cannot be increased if costs go up;

10) the Chinese economy will shrink;

11) real estate is one of the worst investments that one can make;

12) the stock market will keep going down;

13) Russia will start a war over Ukraine;

14) the Eurozone will break up soon;

I am not making all of these assumptions. My point is that assumptions are just that: assumptions. The world rarely unfolds the way we expect it to. This reminds me of a steady refrain from my friend John Mullady: “Whatever you think it is; it is something else.”

My biggest worry with the real estate market is that I have seen too many sure things in life that don’t turn out that way. I am not a by-stander criticizing others while refraining from

taking positions myself. I engage in trading activities all around the world often in highly regulated products in dicey markets. I put my own money up and bare the risks. Sometimes I lose. I have been ripped off by a supplier in Pakistan. I have lost money moving a 40-foot container around the world three times due to a missing rubber stamp that the South African government refused to issue and said was not required; I have been depressed when I got taken by credit card fraud because I was under the assumption that a credit card authorization meant something more than that there were funds on a stolen card to be temporarily honored—and then withdrawn from my bank account after I had shipped the goods and the fraud had been discovered. I have experienced many losses and disappointments over the course of my life for mistakes I have made by being active in markets around the world. I do my best to reduce my exposure to loss by trying to think of how something is going to go wrong and then by taking appropriate steps to reduce my risk or avoid the risk altogether. I make a point of not betting the company on any one deal or customer. Some people think this is being negative and that I attract bad luck or situations by seeking out what can go wrong. I do not believe in superstition and have not found wishful thinking to be very reliable.

I do believe that people must make decisions and act to find success in life. I do believe that debt has a role that can be very powerful in generating riches. I do believe that many individuals are taking on excessive debts in real estate today under assumptions that have not been stated or may prove to be wrong with time. Money can be made when markets are stable, going up, or going down. Knowing how to thrive in good times and bad is the key to success.

Good luck.