

Should you invest in the real estate market or the stock market?

By Mark Walter

Small returns on Wall Street over the last few years make the hottest housing marketing on record seem like the way to go, but is it? Whether to invest your money in real estate or the stock market is the question of the hour and I think there is wisdom in both.

Looking at the short term, U.S. real estate sale prices have increased 56% from the beginning of 1999 to the end of 2004. The S&P 500 Index* dipped nearly 6% during that same period.

Let's take a look at a long term investment standpoint. In the past 25 years the S&P 500 Index has out-produced the real estate market by leaps and bounds. From the start of 1980 to the end of 2004, home sales prices increased 247% . . . a pretty great deal it would seem. However, the S&P 500 shot up more than 1,000%.

REAL ESTATE – LESS VOLATILE, HARDER TO SELL, LOWER LONG-TERM DIVIDENDS

For most people, a home is not something you put in your portfolio or use as a financial instrument. It's a place to live and raise a family. Recently, more and more people are looking to their homes to be something more. To have a roof over your head, while that roof and everything under it increases in value, doesn't sound half bad. It's not free though. You may still have a mortgage, taxes, etc. Your house isn't an asset, however, until you sell it and selling can take months and cost you money in closing fees and commissions. Still, the historical real estate data has it's ups-and-downs but, over the years they tend to smooth out to an upward-trending curve – just like equities. The largest real home price decrease is in the order of 5% in any given year, whereas real stock price declines can see 20% or even more.

STOCK MARKET – MORE VOLATILE, EASIER TO SELL, HIGHER LONG-TERM DIVIDENDS

You can't live in your stock shares, but then again you don't have to buy a new roof or pay condo fees. Stocks are very liquid and can be sold quickly paying only a small fee. Stocks are more volatile, but if you can handle the daily pressure of watching them rise and fall and are looking at long-term investing, stocks actually pay higher dividends.

*The Standard & Poor's 500 Index is usually considered the benchmark for U.S. equity performance. It represents 70% of all U.S. publicly traded companies.

Source: Forbes.com

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