

# **Personal Finance Strategies**

**By Philip Braude**

## **Opportunities after Sub-Prime**

I am currently sitting on an ELAL flight returning from a week abroad, and reflecting on my impressions of the trip. What stands out, is a meeting I had in London with a fund manager of a large UK property fund. He described to me in detail his understanding of the ramifications that the US sub-prime fiasco has had on UK property valuations. At the end of the discussion, I realized how these issues are impacting on each of our financial affairs.

The topic of the sub-prime mess has been the subject of many recent media articles, and I am not going to detail it further in this article. However, I will try and give an understanding of the knock-on-effects this may have for my readers in Israel, and try and identify opportunities arising from the situation.

The obvious effect has been that there is an over-supply of residential properties on the US market. It is now harder for a seller of a US property to sell, and achieve the price that he may have a year ago. It is my belief that a lot of the price rises in “Anglo” destination residential property markets in Israel in recent years (in places such as Jerusalem, Netanya, Raanana, Modiin, Ramat Beit Shemesh etc) was fueled by buyers who had sold overseas homes for record prices. Some of these areas have become unaffordable for 1<sup>st</sup> time home buyers. If the upward pressures in these markets reduce, it will present buying opportunities for prospective home buyers to get on the property ladder in the community of their choice.

Despite the efforts of the US Reserve Bank, worldwide banks and other lenders are panic stricken, and have frozen new lending. This has further reduced worldwide property markets, as credit is difficult to obtain. However, the Israeli mortgage banks have traditionally been very conservative in their lending policies. Thus, it is now no harder now to get an Israeli mortgage than before, so the Israeli property market should not be negatively affected due to the worldwide credit crunch.

An area of great concern, is that the US may be entering a period of recession, which will mean a slow-down of their economy. This is obviously not good news for anyone. It may mean the loss of many jobs as US companies look to cut expenses. In such a scenario, people with good skills may find that there are opportunities for sub-contracting to make up the skill losses incurred by these companies. As has been seen before in Israel, English speaking ex-pats are prime candidates to provide these services, and today with modern communications, distance is no barrier.

From an investment perspective, I see opportunities arising over the horizon. To take a counter-cyclical view, is where there is traditionally money to be made. US & UK property funds & REITS have been badly affected by the negative market sentiment, and are actually trading at a discount to the underlying property values, which themselves are depressed. Since these funds are asset backed, in time the intrinsic value has to be realized, and so present a buying opportunity for those investors who have the vision & time horizon to benefit from this potential. A good way for an investor to access such opportunities over time is called “\$-cost averaging”. This is where a person puts away a fixed monthly amount into investment funds. As the unit price goes up and down over

time, the investor is able to achieve an “average” purchase price for their investments, so short term weakness is actually a benefit as it enables them to purchase at lower prices, and this benefit will be amplified over time as there is a growth in their investment. It is said that every cloud has a silver lining, and it is up to us to find the opportunities that present themselves, especially when things seem so bleak all around. Utilizing such opportunities as they arise can make a big difference to our financial situation in the long run.

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