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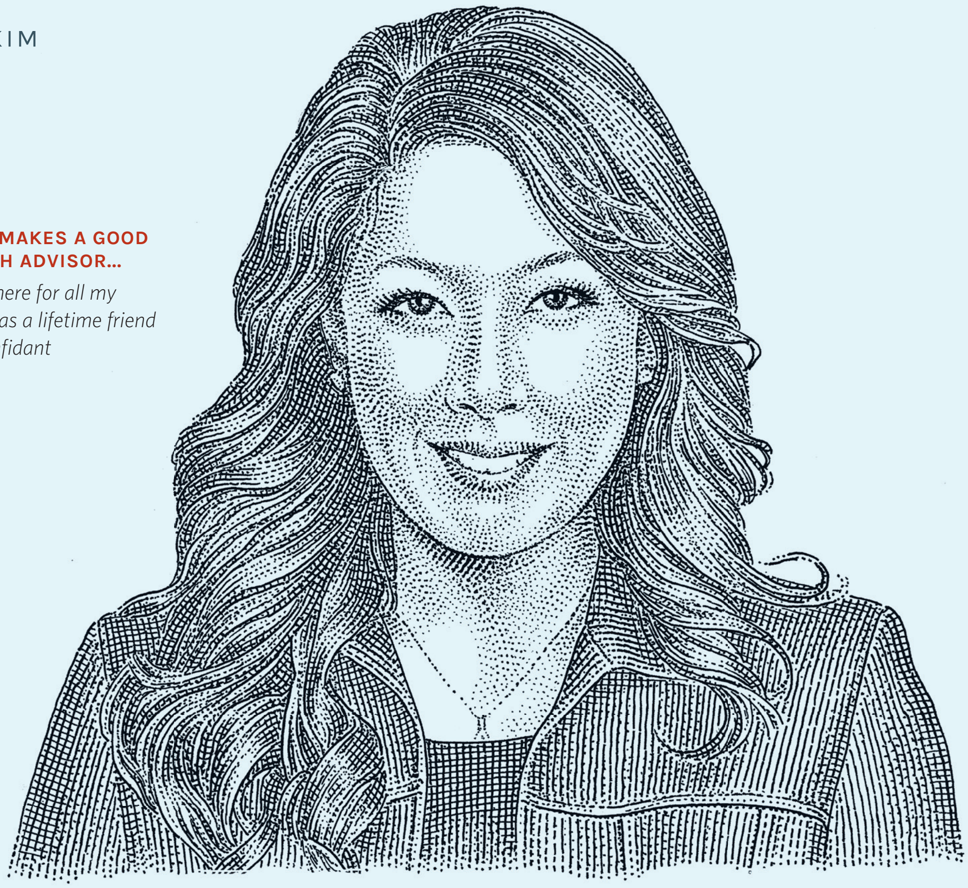
# How are stock and bond portfolios like real estate investments?

BY JENNIFER KIM

**WHAT MAKES A GOOD WEALTH ADVISOR...**

*Being there for all my clients, as a lifetime friend and confidant*



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**FEATURED ADVISOR**
**Jennifer Kim**, MS, CFP®, CMFC, ChFC, CLU, Senior Partner

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ILLUSTRATION BY KEVIN SPROULS

**Building a portfolio is like building a custom home: It entails personalized preferences, tax considerations, risk tolerances, income needs and time horizons. The selection of securities is driven by the need to achieve desired outcomes, just as a homeowner wants certain finishes and appliances to work together to enhance the house as a whole.**

However, unlike what happens in real estate, when the market is high, investors want to "buy in," regardless of price, so they won't miss out on any opportunities. When the market is low, investors want to sell, to prevent any further downside risk.

With real estate, nobody watches the prices of properties on Zillow since they do not matter until it's time to sell. With the stock market, simply seeing prices go lower gives some investors a heart attack, and the urge to sell at the lower price.

Dividends play an important role in total portfolio return, and can account for almost half the total pretax return for the S&P 500 index over the last 25 years. Dividends are similar to rental income on a real estate investment. Although property values fluctuate daily, rental income stays constant. Real estate investors enjoy that income, but they don't net it against any unrealized loss in their property value on a daily basis.

loss, cause the market to do a fast U-turn and sell out the investor's position at the lower price.

Other times, the stops will protect the position from steep losses when there may be significant losses further down the road.

With real estate, it's difficult to hedge property from a market downturn unless the mortgage is paid off, and maintenance isn't dependent on the rental income alone.

> "Building a portfolio is like building a custom home: It entails personalized preferences, tax considerations, risk tolerances, income needs and time horizons."

Stocks and bonds are different. Since their values are so readily available, investors will point out that they "did not make anything" or "lost money," even though they received income from their dividends, and interest.

With real estate, no landlord complains about losing money when he collects rental income, even though the building's value may be lower that week. Nor is the landlord aware of the market price since he's not trying to sell.

The real estate market is also slower in determining trends; this provides investors time to make decisions. The fast movements in the market, however, can make investing in stocks and bonds quite frightening, while the ability investing offers to have fast liquidity on demand, can be a plus.

Techniques abound to stop the portfolio from losing more, and one way is to place stop losses on some of its securities. However, stops work only half the time, since a bad day in the market can trigger a stop

With a portfolio, another method to hedge against a market downturn is to add inverse funds, which can take the opposite side of the market. These positions must be watched carefully, and held only briefly—hence the name "shorts."

Sometimes all these investment strategies and methods appear not to work, and at that point, only patience and a properly constructed portfolio with dividends and interest will provide a solid return, since money can be made though various securities. Both stock and bond portfolios and real estate, then, should be considered when you invest for the future, since both will beat inflation and provide alternate income sources. ●

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## ABOUT US

**JENNIFER KIM IS A SENIOR PARTNER WITH SIGNATURE ESTATE & INVESTMENT ADVISORS LLC (SEIA).** Jennifer received her bachelor of arts degree in economics from the University of California—Los Angeles (UCLA) in 1992. She has been in the securities and insurance business since 1993, and she specializes in investment and wealth management for affluent individuals and corporations. Jennifer is a certified financial planner (CFP) professional. She completed the chartered financial consultant (ChFC) and chartered life underwriter (CLU) certifications through The American College. Jennifer also completed the chartered mutual fund counselor (CMFC) education program and completed her master's degree in professional financial planning through the College for Financial Planning in 2013. She lives in the Hancock Park area of Los Angeles with her husband and four children. ●

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