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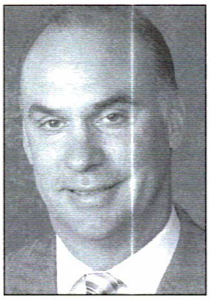
THE EXPERTS:

INVESTING

Q1 hardships create opportunities

The first quarter of 2011 was a bit of a paradox to many.

The conditions suggested contained inflation, historically high corporate retained earnings, increased merger and acquisition activity, and little to no real inflation in sight.



MICHAEL SEARS

But the counter weight saw gas prices at the pump go through the roof, grain and food prices continued to rise, and real estate values continued to decline as short sales and foreclosures continued to escalate.

TRENDS TO WATCH

Let's take a look at some trends we should not ignore. The number of foreclosures continues to rise and rise more than original projections. I challenge you to go to Google, do a search for foreclosures, and read the more specific details.

If you think this is a problem, I suggest to you that the rest of the story is even worse. The rest of the story is the number of short sales that are happening and many very astute investors are not even paying attention. As we look further into this trend, I suggest that you not ignore that which will turn this process of forced downsizing into a trend of desired downsizing.

Think about who created the term "MacMansion." That's right, the baby boomers, a generation which I am a member of, hence very conscious of the psychology. As this generation starts to feel the pressure of an impending retirement, they are looking at this 5,000-square-foot house, which is losing value daily, and thinking, "There is no way I am going to be able to sustain a worry-free retirement and support this home."

Folks, the numbers are simply not adding up and people are starting to realize it. For example, a dear friend purchased a 5,000-square-foot home for roughly $1.2 million over six years ago. When I asked him, "Why do you need a house like that?" he replied, "It is a great investment and my bank is offering an interest-only loan, which makes it a deal I can't pass up!"

Today the house is a short sale for $800,000.

This story is becoming way too common. So, how can smart individuals benefit from America in transition and potentially put some good money in your pocket as this long-term trend continues to unravel?

People are going, by force or design, from 3,000 to 6,000 plus square feet into a much more manageable and affordable 1,500 to 2,000 square feet.

So, the real question is, where are they putting their extra stuff? In self-storage units.

Wow, this is a market sector that is highly fragmented and has huge barriers to entry as it relates to success. The more I studied this business model, the more I realized how challenging it is to do this and do it right. The overwhelming majority of the market is mom-and-pop operations that simply do not know how complicated this process truly is in an effort to make it a profitable venture. It is an exceptionally high maintenance business.

With that said, it is an industry that is absolutely ripe for consolidation. And when we have consolidation, we traditionally have some form of arbitrage. This is how the prudent investor makes money.

NON-TRADED INVESTMENT

You may want to seek out institutional investing here. Most people only have representation in three asset classes: stock, bonds and cash. On this one I would recommend direct ownership through a registered but non-traded investment.

This is one way you may achieve more price stability, and you have the tax benefits, namely depreciation of direct ownership. I am very much a proponent of hard asset ownership for a percentage of everyone's wealth because at the end of the day, if a stock or bond goes away, you are left with nothing.

For example, when Enron and Worldcom shut their doors, the stockholders were left with nothing. However, the landlords that were leasing them their buildings simply went on to release their properties. Doesn't this make sense for a portion of wealth management?

Here is another trend that I've identified that most investors know about, but may not know how to take advantage of it without significant exposure to the number-one risk, politics.

We know we can buy the pharma, biotech, HMOs, insurers, etc... all

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through the public market place. However, all of these become very volatile in the event D.C. says the wrong thing. Most of my clients have a very low volatility threshold, so these types of investments may not be prudent for them.

However, let us consider a politically neutral asset such as medical real estate. Even better, let's take a look at medical real estate that is attached to a medical system such as Sentara or Bon Secours. This may be a great place to put some money because we all know the trend that is coming: Remember two things, those baby boomers and that the value of real estate is measured by foot traffic. Obama Care only enhances this traffic, which will in turn only further add to the boomer trend. This trend is undeniable and very likely to have significant staying power. Do not overlook or underestimate this one!

PLANNING FOR THE FUTURE

Let's look at the dynamics of what has happened with the previously second largest economy in the world, Japan.

I bring this to your attention because there exist three similar dynamics in the U.S. that have caused the implosion of the Japanese economy - a declining birth rate, shifting to an entitlement economy, and an overreliance of governmental stimulus. All three are very distinct signs of a sick economy and the dynamics may prove to be insurmountable.

The U.S. is currently just entering the entitlement phase of a matured economy. Remember those baby boomers, well, as they retire they create a net outflow from the public market place to support their standard of living. Add the down/right-sizing trend and we have a very powerful dynamic that warrants our fullest attention.

Couple this with the dynamic of a very overextended government that will be responsible to extend further entitlements to the boomers. The third issue is the imbalance of less people working trying to support more people retiring. The tipping point for Japan was in 1989 when its market reached a top and has not been approached, not even remotely close, since then, and their baby boomers started to retire.

I trust you can draw your own conclusions here. The future will require you to think outside the box. The norm simply may no longer meet your expectations and sorely enough, your retirement needs.

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