

Fool's Gold, Paper Gold and Real Gold

May 5, 2013

Dear Dave: What do you think in general about the Reverse Mortgage being marketed to older folks who need to supplement their income?

Answer: The Reverse Mortgage is like "Fool's Gold". You are actually paying yourself out of the equity in your home, while slowly losing it to the investor marketing the reverse mortgage. Whilst the reverse mortgage may be of some benefit in supplementing your income, just remember that you are giving up your hard-earned equity purchased over many years.

The reverse mortgage should only be used as a last resort - a desperate measure if you are totally busted to meet your daily financial needs.

Dear Dave: You recently wrote about real estate as a commodity and I was pleased at what you said. I personally want to accumulate 'Gold' as an insurance policy against inflation and wondered how to go about this. Do you have any advice please?

Answer: Gold is, in effect, a currency - and a currency that will out-live many other currencies, including the U.S. dollar. I agree that, in addition to owning the dirt you live on (real estate), gold is a very wise choice for part of your wealth preservation in these uncertain times. It is more accurately defined as a currency hedge rather than an inflation hedge.

Gold can be purchased as an Exchange Traded Fund (ETF) on the stock-market. 'GLD' and 'IAU' both represent physical gold and are one way of investing that doesn't require you to collect and store it yourself. However, in the event of a future financial crisis, these ETF's are still just 'paper' like the U.S. dollar itself, and it is far better to obtain the physical product in my view.

If you are savvy enough to figure out a storage method on your own real estate (e.g. a canister safe below ground that nobody knows about), I recommend purchasing the real deal.

A fairly simple way to acquire physical gold at the day's 'Spot' price plus 3 or 4 percent is to purchase gold coins. I would recommend the Canadian Maple Leaf or Australian Kangaroo. The advantage of this choice, apart from them being well packaged to avoid damage, is that they are both foreign currencies which cannot, under any circumstances, be confiscated by the U.S. government. It is uncertain what the Federal Government will do when judgement day for the U.S. Dollar arrives.

Dear Dave: Conventional home loan rates are low but so are the dividend rates on interest bearing bank accounts. I'm selling my home in Anchorage and moving to Texas. Should I use all, some, or none of the net proceeds from this sale as a down payment on the Texas ranch? Secondly, I qualify for a VA loan. Should I bite the bullet and wait out the VA processing or go conventional?

Answer: Your question is a good one, though not simply answered without more information. However, I will assume that these 'net proceeds' will provide, say, 10% down-payment and closing costs on your new home.

First, you should maximize your down-payment on your Texas ranch. Try for 20% if possible because this eliminates the Mortgage Insurance premium completely. In any event, I agree that leaving cash in a C.D. is an absolute waste of time and you should strive for full ownership of the ranch as quickly as possible.

If, however, you do not have enough cash to reach the 20% down threshold, then use your VA. If you served your country to obtain VA, you deserve the benefit of the Federal Government giving a guarantee to the lender. This is what VA does for you and, therefore, eliminates the mortgage insurance premium, even if you were buying with zero down.

Dear Dave: The Muni came through our subdivision a couple of weeks ago and widened the roadway by blowing snow into our yard. To whom do I complain about this so that it doesn't happen next year?

Answer: Complain to yourself. The MOA was blowing the snow onto its own property. Most homeowners think that their yard extends all the way to the curbside of the road, but this is not true. The public Right-of-Way is considerably wider than the road itself for this very reason, so that snow can be stored at the side of the road without imposing on privately owned real estate.

Just take your As-built Survey to find out where your front property line is really located, by measuring from your house structure the distance stated on the survey. You will be very surprised to see how much of the land does not, in fact, belong to you! Even your mailbox is not actually on your real estate. This can become an issue when a homeowner takes the mailbox upon selling but, unless you write it in the contract, the mailbox is not part of the real estate.

Dear Dave: We are renting at the moment and are asking ourselves whether we shouldn't become homeowners soon. Is this the right time to be buying?

Answer: Yes, without doubt. Did you know that the average homeowner has a net worth 46 times higher than the average renter? It makes absolute sense for renters to do all they can to move from making their landlord rich to setting up their own property ownership. In the United States, with decent credit, this is made as easy as anywhere in the world.

Interest rates are 3.25% at this time, so now is the perfect environment to buy in Alaska. Call your Realtor, and make an appointment with a reputable Lender asap!