INVESTMENT 101

The Evils of Intentions

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If I were to name one single mistake that has tripped property investors over and over again, generations after generations, and few ever address, it will have to be intentions.

Now that might sound bizarre. Of course you would not be buying properties without intentions. But here's the thing. One intention is good. Two intentions tend to confuse. Any more than two is a sure recipe for disaster.

Perhaps the best way to illustrate it is to relish some stories that I have encountered time and again.

Story One. I once met a gentleman who was keen to invest in one of the most liveable city in the world. Naturally he asked for my advice on where to bet his monies. He assured me that he would send his son, who was then studying in that city to have a look.

Weeks later he called me, saying that his son didn't think the area I suggested was that great . There were quite some cranes there and he wouldn't want to live next to construction sites. I asked, "Do you want to invest or live there? Because while cranes may not be so great for living, they are great indicators of growth, especially if they are being used for building transportation and infrastructural amenities".

So here's a tip - don't confuse investing with buying for your own stay. The requirements are often different and contradicting. Compromising both only leads to indecision at best and bad decisions at worst.

Story Two. A mother came up to me once after a seminar. "I bought a unit for my son when he was studying in XYZ city 4 years ago. It was walking distance to the university and I thought that would make a great investment. But today it is valued lower than my purchase price! What is happening?"

"Think about it," I replied, "Would you as a professional like to live in a student zone? Or how about families? Would families like to raise their kids in a student zone?".

"Probably not", she responded. "So basically 95% of the market doesn't want your property" I explained. "That leaves only 5% who are probably investors that will bargain down to the last dollar with you. How would you expect to profit from such a property then?"

It would have been much better for her to invest in an investment property, collect the rent and allow the son to rent pretty much anywhere he likes. In other words, separate the intentions.

Story Three.. Over tea in China, I was asked by the boss of a financial firm based in Shanghai what I thought about the Bangkok market. I looked him in the eye and drew a quick breath before saying, "I will be happy to provide you an overview of the Thailand market. But before that, may I ask why are you buying a property there?". "Well, it looks like a great place to holiday in," was his simple reply.

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“If the property costs USD200,000 and you spend about USD1,000 for a week’s lodging there per trip, do you plan to spend the next 20 years visiting Bangkok 10 times a year? Not to mention that you will only visit the same place, and with no house cleaning service?”. “Probably not…” He replied sheepishly after some thoughts. “So would you still want to know about the Thailand market?” I asked. “It’s ok then,” he replied with a wry smile.

Between buying a property for retirement or holidaying and for investment is a huge gap of monetary losses that many have fallen victim to.

Story Four. Ecohouse - A Brazil-based social housing development that saw over SGD65m lost by Singaporeans alone. Now under administration and investigation but once touted as the best investment project by gurus and some of the media no less. I have met aggrieved investors and despite the fact that years have passed, many still are unable to let go of the pain, especially for those who invested their life savings.

“Why did you do it?” I had asked them. “Well, Brazil WAS booming, and it seemed like a good idea to help out the poor while making money at the same time,” was the typical reply.

“Well, who do you think gets richer when an economy booms?” was my next question. “The rich of course!” was the usual quick answer.

“Why then did you invest in social housing instead of luxury bungalows?” They would flash me an accusing look at that point.

“Don’t get me wrong, I am not being mercenary. But wouldn’t it make sense for you to invest in what works and then donate the earnings to charity if you like, rather than mixing charitable intentions with your investments? Investments that need to wave “charitable intentions” to get your attention is like waving a huge red flag if you ask me.”

Intentions, intentions. When it comes to property investing, intentions are best adhered to an old design principle by the US Navy in the 1960s that goes by the acronym KISS - Keep It Simple, Stupid. Because every single intention comes along with its swarm of factors to consider and this often conflicts and confuses with other intentions. Where there are confusions, losses are sure to follow.

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