CHAPTER 11
Real Estate and Other Investments

What You’ll Learn

When you have completed this chapter, you will be able to:

Section 11.1
- Explain the different types of real estate investments.
- Discuss the advantages and disadvantages of real estate investments.

Section 11.2
- Identify the different types of precious metal and gem investments.
- Describe collectibles investments.
- Analyze the risks of investing in precious metals, gems, and collectibles.

Reading Strategies

To get the most out of your reading:
Predict what you will learn in this chapter.
Relate what you read to your own life.
Question what you are reading to be sure you understand.
React to what you have read.
In the Real World . . .

Erna Sato loves to visit thrift shops, where she looks for rare books and records that cannot be found on CDs. She has a knack for knowing what items are in demand and supplements her income by selling those things through online auctions. Erica also knows that old Disney® and Coca-Cola® items are coveted by collectors around the world. The Internet makes it easy for her to sell to people near and far, and she has built an excellent online reputation by sending items on time and in protective boxes. Collectibles can be a good investment, but Erica realizes they are more risky than other investments, so she wants to diversify her investments to include real estate and other alternatives.

As You Read Why do you think collectibles are considered a risky investment?

Collecting

Q: Are collectible action figures a smart investment for retirement?

A: Although collecting can be an enjoyable and sometimes profitable pursuit, collectibles are not a mainstay of retirement planning. It would be best if you focused your retirement planning efforts on building a diversified portfolio that may include stock and bond investments. You could still use collectibles as a small part of your portfolio, but their returns are very unpredictable.

Ask Yourself Why are the returns on collectibles so unpredictable?

Go to finance07.glencoe.com to complete the Standard & Poor’s Financial Focus activity.
Real Estate Investment

Real Estate Investments

What is the difference between direct and indirect investment in real estate?

Real estate has always been a favorite investment for Americans. Unlike stocks and bonds, a piece of property is something you can see and touch and take pride in. However, if you are new to the real estate market, you may be confused by all the different choices you have.

Direct Real Estate Investments

Real estate investments can be direct or indirect. The owner of a direct investment holds legal title to the property he or she has purchased. Direct investments include single-family houses, duplexes, apartments, land, and commercial property.

A Home as an Investment  What is a home? Obviously, it is the place where you and your family live. However, owning a home can also be a good investment.

According to Mortgage Bankers Association of America, home ownership is most Americans’ largest financial asset. In 2003, the market value of homes in the United States was nearly $12 trillion, which was 50 percent higher than five years earlier. Homeowners’ equity, the value of a home less the amount owed on the money borrowed to purchase it, accounted for 30 percent of household wealth.

As discussed in Chapter 8, during periods of inflation, the purchasing power of your money declines. Investing your money can help you stay ahead of inflation. Owning a home is a good investment because, generally, home prices have risen steadily over the years, as shown in Figure 11.1. In fact, during the past 150 years, owning a home produced an average rate of return after inflation of about 2.5 percent. That is about the same rate of return you would expect from a bond.

Most homeowners have mortgages, which can provide certain tax benefits. Homeowners can report the interest charges on mortgage payments as well as property taxes as deductions on their income tax returns.
**Vacation Homes** Second-home mortgages also provide tax benefits. For example, Kevin’s parents own a vacation home on Fox Lake. It is a good investment because the family uses it year-round and never rents it out to others. According to the federal government, that qualifies it as a second home. Therefore, Kevin’s parents can take advantage of certain tax deductions. If the parents rented out the home for more than 14 days each year, the government would consider it a rental property. As a result, any tax deductions would depend on whether Kevin’s parents managed the property and on the size of their income.

**Commercial Property** In addition to the vacation home on the lake, Kevin’s parents also own commercial property. *Commercial property* is land and buildings that produce rental income. Kevin’s parents own an apartment building that adds to their income. Other examples of commercial property include duplexes, hotels, office buildings, and stores. Most small investors favor duplexes, four-plexes, or small apartment buildings. Many investors start by purchasing a small commercial property. Then they buy larger properties as the equity in their original investment increases.

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**Figure 11.1** Average Sales Prices of New Single-Family Homes

![Graph showing average sales prices of new single-family homes by region: Northeast, Midwest, South, and West.](image)

**Up and Away** The average selling price of homes in the United States has risen steadily since 1970.

**Which region experienced the greatest gain? The lowest?**
Land  In 1986, Kevin’s parents received quite a shock. Tax laws in the United States were rewritten so that many popular real estate investments, such as apartment buildings, lost some of their tax advantages. Owning commercial property became less appealing to some real estate investors. Many of these investors began investing in land that was ready to be developed.

Kevin’s parents talked to an investment banker before they purchased land. She told them that while land investments often promise tremendous gains, they also pose enormous risks. If construction in general slowed or business activity declined, Kevin’s parents might not be able to sell their property at a profit. Even worse, they might not be able to get the price that they had paid for it. Furthermore, the banker reminded them that unlike an apartment building, land in urban areas usually does not produce any income.

The banker also cautioned Kevin’s parents about buying land and then dividing it into smaller lots to build single-family houses. They must be certain that water, sewers, and other utilities would be available. Otherwise, they would have to supply those services. The most common and least expensive way to obtain water and sewer service is to connect to existing services in a nearby city or town.

Indirect Real Estate Investments

Suppose that you want to invest in real estate, but you do not have enough money to purchase property on your own. The answer may be an indirect real estate investment. An indirect investment is an investment in which a trustee is appointed to hold legal title to the property on behalf of an investor or group of investors. Indirect investments include real estate syndicates, real estate investment trusts, high-risk mortgages, and participation certificates.
Real Estate Syndicates or Limited Partnerships  A **syndicate** is a temporary association of individuals or business firms organized to perform a task that requires a large amount of funds. A real estate syndicate invests in real estate. A syndicate may be organized as a corporation or as a trust. Most commonly, however, a syndicate is organized as a limited partnership.

Here is how a limited partnership works: A general partner, who takes complete responsibility for all of the partnership’s liabilities, forms the partnership. The general partner then sells participation units, or shares, to a number of limited partners, or investors. Suppose that you decide to join the syndicate. As a limited partner, you are liable for only the amount of money you have invested, perhaps $5,000 or $10,000. This limited liability is an important condition of a real estate syndicate because the syndicate’s mortgage debt may be more than your personal net worth or that of the other limited partners.

A real estate syndicate offers you and the other partners a variety of benefits. For example, if the syndicate purchases several types of property, your investment will be diversified. That is, you will be part owner of different types of property. In addition, the property owned by the syndicate is professionally managed. You do not need to care for it yourself.

At one time, people would join a real estate syndicate to create a tax shelter, which is a legal arrangement to take advantage of income tax deductions. However, the Tax Reform Act of 1986 limits the tax advantages available to syndicate investors. For example, investors can no longer use losses from their syndicate investments to offset, or reduce, their income from other sources. The 1986 law limits deductions for interest and for depreciation, which is the cost of general wear and tear. It also raised the tax on capital gains.

**Real Estate Investment Trusts (REITs)** Joshua’s grandfather gave him $3,000 for graduation. Joshua would like to invest that money in real estate, but realizes that he cannot buy an apartment building or condominium for that much money. One real estate investment choice Joshua could consider is a real estate investment trust (REIT). A REIT works much like a mutual fund. Like mutual funds, REITs combine money from many investors. However, while mutual funds are investments in stocks, bonds, and other securities, REITs are investments of the investors’ money in real estate or in construction or mortgage loans. Shares in REITs are traded on stock exchanges or on the over-the-counter market.

There are three types of REITs: equity, mortgage, and hybrid. If you choose an equity REIT, your money will be invested in properties. Choosing a mortgage REIT will put your money to work financing construction loans and mortgages on developed properties. If you want to combine the investment goals of equity and mortgage REITs, you can choose a hybrid REIT.
Learn to identify and understand the standard financial documents you will use in the real world.

Investigate: A County Real Estate Valuation
A county real estate valuation contains the following information:
- Property parcel ID number
- Description of the property
- Appraised value
- Assessed value

Your Motive: Real estate property, such as a house or land, is taxed based on its value. The higher the value, the more taxes you pay to the local government. You will need to make sure that your property is valued correctly so that you do not pay excessive taxes.

<table>
<thead>
<tr>
<th>Description of Primary Building(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colonial frame 2.0 story, 2,251 sq. ft. built about 1988 with 8 total rooms with 4 bedrooms, 2 bathrooms with 1 half bath with full basement with no attic with 0 car basement garage with 1 fireplace.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description OBY Building(s)</th>
<th>Value</th>
<th>Proposed 2007 Appraised Value</th>
<th>2007 Assessed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>WD1: Wood Deck</td>
<td>$1,330</td>
<td>Land: $42,900 Building(s): $162,870 Total: $205,770</td>
<td>Land: $15,020 Building(s): $57,010 Total: $72,020</td>
</tr>
</tbody>
</table>

Key Points: The county government assesses the value of real estate property to determine how much tax should be paid for the property. County auditors review the value of recent real estate purchases and any improvements made to the property. The auditors then determine an appraised value for the property and an assessed value. The assessed value determines the amount of tax. Then a statement is sent to the property owner explaining the valuation.

Find the Solutions
1. What is the parcel ID number?
2. How many square feet of interior space does the building have?
3. What style is the building?
4. What is the appraised value of the wood deck?
5. What is the total square footage of the lot?
According to federal government regulations, REITs are required to:

- Distribute at least 90 percent of their net annual earnings to shareholders.
- Avoid investing in risky, short-term real estate holdings in the hope of selling them for quick profits.
- Hire independent real estate professionals to carry out certain management activities.
- Have at least 100 shareholders, with no more than half the shares owned by five or fewer people.

If you are interested in finding out more about REITs, you can contact the National Association of Real Estate Investment Trusts.

**High-Risk Mortgages** Some investors accept high risk in exchange for possible profits. For example, Mr. Moy is a wealthy investor who purchases high-risk mortgages and other debt contracts. Because he is wealthy, Mr. Moy is willing to take risks that financial institutions, such as banks and savings and loan associations, will not. For example, Mr. Moy might purchase the mortgage on a property that is not in demand because the title to the property may not be legally clear or insurable. Because of such risks, Mr. Moy and other similar investors might receive a high rate of return on their investments. Even though Mr. Moy is not guaranteed a high rate of return, he hopes that the demand for his property will increase so he will make a handsome profit in the future. On the other hand, if the demand does not increase, Mr. Moy may lose most or all of his investment.

**Participation Certificates** Unlike Mr. Moy, investors cannot afford to take such risks with their money. If you are looking for a risk-free real estate investment, then participation certificates might be a good choice for you. A participation certificate (PC) is an investment in a group of mortgages that have been purchased by a government agency. Because the investment is made in a group of mortgages, it is considered a mutual fund. You can buy participation certificates from these federal agencies:

- Government National Mortgage Association (Ginnie Mae)
- Federal Home Loan Mortgage Corporation (Freddie Mac)
- Federal National Mortgage Association (Fannie Mae)
- Student Loan Marketing Association (Sallie Mae)
A few states also issue participation certificates. You can purchase PCs from the State of New York Mortgage Agency (Sonny Mae) and the New England Education Loan Marketing Corporation (Nellie Mae).

Agencies with close ties to the federal government guarantee Maes and Macs. The PCs they issue are as secure as U.S. Treasury bonds and notes. You can invest as little as $1,000 to buy shares. Each month, you can receive a check for the principal and interest or reinvest the profits.

**Real Estate Investment: Pros and Cons**

**What should you know when considering real estate investment?**

Before you invest in real estate, you will want to weigh the advantages and disadvantages.

**Advantages of Real Estate Investments**

There are several advantages enjoyed by certain types of real estate investments:

**Hedge Against Inflation** When inflation rises, your purchasing power decreases. Both direct and indirect investments in areas such as real estate are wise because they provide some protection against inflation. Historically, real estate continues to increase in value or at least hold its value, thus protecting investors from declining purchasing power.

**Easy Entry** By making an indirect investment in a real estate syndicate, you can easily become a part owner of an apartment building or a shopping center. By combining your money with that of other investors, you can purchase commercial property.

**Limited Financial Liability** An indirect investment in a real estate syndicate allows you to be a limited partner. That means you are not liable, or responsible, for losses beyond your original investment. This advantage is important if the syndicate is investing in a risky venture.

**Financial Leverage** Financial leverage is the use of borrowed funds for direct investment purposes. By using borrowed money, you can purchase more expensive property. If property values and incomes are rising, this can be an advantage.

For example, suppose that Deborah buys a building for $100,000 with no borrowed funds. She then sells the building for $120,000. Deborah’s $20,000 profit equals a 20 percent return on her $100,000 investment ($20,000 ÷ $100,000 = 0.20 or 20%).

On the other hand, suppose that Deborah invested just $10,000 of her own money and had a $90,000 mortgage with an interest rate of 8.5 percent. After three years, she sells the property for $120,000, with a profit of $7,721 ($20,000 profit − $12,279 in interest = $7,721). Her profit would represent a 77 percent return on her $10,000 investment ($7,721 ÷ $10,000 = 0.7721 or 77.21%).
Disadvantages of Real Estate Investments

Unfortunately, investors such as Deborah cannot be certain that their real estate investments will pay off. There are several possible disadvantages to real estate investments:

Iliquidity  Real estate is an illiquid investment, which means that it cannot be easily converted into cash without a loss in value. It may take months or even years to sell commercial property or shares in a limited partnership.

Declining Property Values  As discussed earlier, real estate investments usually offer some protection against inflation. However, when interest rates fall, or if the economy is in a decline, the value of real estate investments may decrease. If you own property, you may have to make the difficult decision to sell your property for less than you paid for it and accept a loss.

Lack of Diversification  Because real estate is expensive, many investors can afford only one or two properties. Subsequently, it may be difficult to build a diversified real estate investment portfolio. Keep in mind, however, that REITs, PCs, and syndicates do offer various levels of diversification.

Careers in Finance

Yvonne Inger  Hartman Management

Yvonne has always been able to manage many tasks at once. As the commercial property manager for three retail buildings, this skill comes in handy. Yvonne monitors and maintains the building systems, vendor contracts, tenant relations, and profit and loss responsibilities for all three buildings. To keep in touch with her tenants, she visits the retail sites regularly and attends weekly and monthly tenant meetings. In addition to handling her tenants' concerns, she takes care of the properties' bills, licenses, and any emergencies that may arise. As a commercial property manager, Yvonne is able to work independently and acts as her own boss.

SKILLS:  Communication, math, management, customer-service, organization, and time-management skills

PERSONAL TRAITS:  Discretion, good judgment, and tactfulness

EDUCATION:  Bachelor's degree or master's degree in business administration, finance, administration, or related fields

ANALYZE  How might a skilled commercial property manager affect the value of the property?

@  To learn more about career paths for commercial property managers, visit finance07.glencoe.com.
**Lack of a Tax Shelter**  In the past, real estate syndicates were tax shelters for investors. However, the Tax Reform Act of 1986 eliminated that advantage. Syndicate investors cannot deduct real estate losses from the income they receive through other sources, such as wages, dividends, and interest.

**Management Problems**  When you invest in REITs, syndicates, or PCs, property management is provided as a part of your investment. When you invest in mortgages, property management is not an issue. However, when you buy your own properties, you must manage them. That means that you are responsible for such things as finding reliable tenants, replacing worn carpeting, and fixing the furnace. Property management can be a full-time job, and many investors are not willing to take on that much responsibility.

**Investment Options**

If you consider all the advantages and disadvantages of investing in real estate and you believe it is too risky or too complicated, you might consider other tangible investments. Gold and other precious metals, gems, and collectibles are options that some investors choose. However, these investments carry risk with the reward, as discussed in the next section.

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**Section 11.1 Assessment**

**QUICK CHECK**
1. What are examples of direct and indirect real estate investments?
2. What are the advantages of indirect real estate investments?
3. What are the disadvantages of direct and indirect real estate investments?

**THINK CRITICALLY**
4. Identify some similarities and differences among syndicates, REITs, and PCs.

**USE COMMUNICATION SKILLS**
5. **Selling Participation Certificates**  PCs are considered risk-free investments. This makes them appealing to investors who are looking for protection against inflation but who do not have a lot of money to invest. How would you interest potential investors in these certificates?

**Write About It**  Write a persuasive ad that points out the advantages of participation certificates. Be sure to include information that highlights the risk-free nature of these investments.

**SOLVE MONEY PROBLEMS**
6. **Diversification**  Teresa has been working as an advertising copywriter for five years. She has been saving money and now has $10,000 to invest in real estate. Teresa wants to make sure that her real estate investments will be diversified, not too risky, and easy for her to manage.

**Analyze**  Give Teresa some advice about the different types of real estate investments that would best meet her investment goals.
Precious Metals, Gems, and Collectibles

Gold
Why do people invest in gold and other precious metals?

Precious metals include such valuable ores as gold, platinum, and silver. Many people invest their money in precious metals as a hedge, or protection, against inflation.

When Mark graduated from high school, his grandfather gave him a gold pocket watch. Ever since, Mark has been fascinated by gold and has wanted to own more of it. If you are interested in purchasing gold, you have several choices, as shown in Figure 11.2 on page 362.

The price of gold rises when people believe that war, political unrest, or inflation may be just around the corner. As international tensions ease or the political situation stabilizes, the price of gold falls. In January 2005, the price of gold was about $425 per ounce. Figure 11.3 on page 363 shows how the price of gold rose and fell from 1979 to 2003.

Silver, Platinum, Palladium, and Rhodium
What is one disadvantage of investing in a precious metal such as platinum?

Other precious metals that rise in value during times of political or economic trouble are silver, platinum, palladium, and rhodium. Silver prices have ranged from a historic low of 24.25 cents an ounce in 1932 to more than $50 an ounce in early 1980. In January 2005, the price of silver was about $6.80 an ounce.

Platinum, palladium, and rhodium, which are three lesser-known precious metals, are also popular investments. All of these metals have industrial uses, particularly in automobile production. In January 2005, platinum sold for about $877 an ounce, palladium for about $200 an ounce, and rhodium for about $1,300 an ounce.
When the economy weakens or political unrest develops, some people believe that gold is the safest investment they can make. Investments in gold can take many forms.

1 **Bullion** You can purchase gold bullion, which is offered in bars and wafers, from dealers of precious metals and from banks. The seller’s commission can range from 1 to 8 percent. If you do not store the gold with the dealer, you must have it reassayed (tested for quality) before you can resell it.

2 **Coins** Gold coins represent a simple way to invest in this precious metal. Most coin dealers require a minimum order of ten coins and will charge you a seller’s commission of at least 2 percent.

3 **Stocks** You can diversify your investment portfolio by purchasing common stock in gold mining companies. When the economy is healthy, the price of gold stocks tends to fall while the value of other investments rises. When the economy falters so that traditional investments lose value, gold stocks tend to rise in value.
Storing precious metals can be tricky. Twenty thousand dollars’ worth of gold, for example, is about the size of a thick paperback book. That same amount in silver weighs more than 200 pounds and could require several safe-deposit boxes for storage space.

In addition, remember that while stocks, bonds, and other interest-bearing investments are earning money for you, precious metals sit in vaults, earning nothing. In order to make a profit when you sell precious metals, you must correctly predict the behavior of the market and sell the metals when their value is higher than what you paid for them.

**Precious Gems**

*What is one of the advantages of investing in precious gems?*

When the Queen of England opens the British Parliament, she wears a crown and carries a scepter, both of which are covered with diamonds, rubies, sapphires, and other glittering gems. As soon as the ceremony is over, the royal ornaments are quickly locked up again in the Jewel House at the Tower of London.

Throughout world history people have valued the precious gems that lie below the earth’s surface. Precious gems are rough mineral deposits (usually crystals) that are dug from the earth by miners and then cut and shaped into brilliant jewels. These gems include diamonds, sapphires, rubies, and emeralds. They appeal to investors because of their small size, ease of storage, great durability, and their potential as a protection against inflation.

**Figure 11.3** Changing Price of Gold Since 1980

Gold’s Wild Ride

The value of gold fluctuated widely during the last quarter of the 1900s.

*What might explain the spike in gold prices during 1980?*
The inflation that occurred in the United States during the 1970s prompted investors to put more of their money into tangible assets such as gemstones. The result was a 40-fold increase in the price of diamonds. A few lucky investors made fortunes during that time.

Whether you are buying precious gems to store in a safe-deposit box or to wear as jewelry, keep in mind the risks associated with this type of investment. First, you cannot easily convert diamonds and other precious gems into cash. Also, as a beginning investor, you may have difficulty determining whether the gems you are purchasing are of high quality. Political unrest in gem-producing countries can affect supply and pricing. In addition, you will likely have to buy your gems at higher retail prices and sell them at lower wholesale prices. The difference is usually 10 to 15 percent and sometimes as high as 50 percent.

The best way to know exactly what you are getting in an expensive precious gem is to have the stone certified by an independent geological laboratory, such as the Gemological Institute of America. The certificate should list the stone’s characteristics, including its weight, color, clarity, and quality of cut. The grading of gems, however, is not an exact science. Experiments have shown that the same stone submitted twice to the same laboratory may get two different ratings.

CROWN JEWELS
Throughout history, precious gems have been associated with royalty. Why do you think diamonds, rubies, and other precious stones fascinate people?

GEOGRAPHY
Precious metals and stones have fascinated people around the world for centuries. Billions of dollars change hands each year as valuable metals and stones are bought and sold. Many people invest in precious metals and stones as a way of diversifying their investment portfolios. Print a world map and mark the places where gold, silver, platinum, diamonds, emeralds, and rubies are found. Use a color key to identify each precious metal and gem on the map.
Despite the attraction of precious metals and gems, the investment risks are sizable. The primary risk is the great fluctuation in prices, which can be influenced by global, economic, financial, and political factors. For example, in 1980, world events caused the prices of precious metals and gems to shoot up. Investors bought gold for as much as $850 an ounce, and a one-carat diamond for $62,000.

**As You Read**

**RELATE**

Would you purchase precious metals? Why or why not?

**Global Financial Landscape**

Standard and Poor's publishes the globally recognized S&P 500® financial index. It also gathers financial statistics, information, and news, and analyzes this data for international businesses, governments, and individuals to help them guide their financial decisions.

**SOUTH AFRICA**

Diamonds, one of the oldest substances on Earth, are today’s most popular gem. They were once used to guard against “evil spirits” but have since become a token of everlasting love. They are used to commemorate engagements, April birthdays, and 75th wedding anniversaries. Diamonds are mined in about 25 countries and on every continent but Europe and Antarctica.

One country that is well-known for its diamond mining is South Africa. Diamonds were discovered there in 1867. News spread quickly, and thousands of prospectors staked their claims and began to mine South Africa’s diamond fields. This spurred economic growth in South Africa. Some of the world’s most beautiful and famous diamonds were found in South Africa. In fact, the world’s largest diamond was found in 1905 among the rich deposits of South Africa. It weighed 3,106.75 carats. When cut, the stone produced 105 gems, including the famous 530.20-carat “Star of Africa.”

**DATABLETS**

- **Capital**: Pretoria (administrative capital), Bloemfontein (judicial capital), and Capetown (legislative capital)
- **Population**: 44,024,000
- **Languages**: Afrikaans, English, Ndebele, Pedi, Sotho, Swazi, Tswana, Venda, Xhosa, and Zulu
- **Currency**: rand
- **Gross Domestic Product (GDP)**: $456.7 billion (2003 est.)
- **GDP per capita**: $10,700 (2003 est.)
- **Industry**: Mining, automobile assembly, metalworking, and machinery
- **Agriculture**: Corn, wheat, sugarcane, fruits, and beef
- **Exports**: Gold, diamonds, platinum, other metals and minerals, and machinery and equipment
- **Natural Resources**: Gold, diamonds, chromium, antimony, coal, and iron ore

**Think Globally**

With technology making it possible to manufacture imitation diamonds, do you think real diamonds will continue to be valued highly? Why or why not?
Collectibles

What are collectibles?

Collectibles are another type of investment. Collectibles include rare coins, works of art, antiques, stamps, rare books, comic books, sports memorabilia, rugs, ceramics, paintings, and other items that appeal to collectors and investors. Each of these items offers the knowledgeable collector or investor both pleasure and an opportunity for profit. Many collectors have been surprised to discover that items they bought for their own enjoyment have increased greatly in value while they owned them.

For example, when Hannah was a little girl, her Aunt Sylvia bought her two collectible dolls. As she grew up, Hannah received more dolls as gifts and also bought some of her own. She now has an extensive collection of over 100 different dolls. Although Hannah never really thought of her dolls as an investment, she recently discovered that several of them are worth $500 each, which is more than three times what she paid for them.
Collectibles on the Internet

Before the era of the World Wide Web, finding items to add to your collections could be very time-consuming. You would have to pore over collectors’ trade magazines to research the value of items you wished to buy. Then you would have to go to shows, sometimes far away, where collectors met to buy and sell their merchandise.

That process has changed. The Internet has made buying and selling collectibles efficient and convenient, and the number of Web sites for collectors has exploded. In 1999, when Guernsey’s Auction House offered Mark McGwire’s 70th home run baseball to bidders, they opened the bidding process to online buyers as well. Although the baseball went to an anonymous telephone bidder (later known to be the famed comic book artist Todd McFarlane) for $3 million, the use of the Internet as an auction site was firmly established.

It is easy to see why the Internet appeals to collectors. As a buyer, you can search for items to add to your collection with a few keystrokes, and sellers can reach people all around the world. Prices are not necessarily lower on the Internet, but comparison shopping is easier, and most sites do not charge a buyer’s commission.

Of course, collecting through the Internet has its drawbacks. As an online buyer, you cannot assess a dealer face-to-face or examine the objects for flaws or trademarks. Furthermore, fraud is an ever-present danger.
Let the Collector Beware

Collecting can be a satisfying hobby and a good investment. Nevertheless, a wise collector must always be alert for scams—on or off the Internet. For example, how do you know that the fielder’s glove you bought was actually signed by Mickey Mantle? Could your Civil War-era postage stamps be counterfeit? Is that Barbie® doll, Lionel® locomotive, or Darth Vader™ action figure really as rare and valuable as you have been told?

When you trade collectibles, be aware that some online auction and exchange sites are more reliable than others. According to figures from Internet Fraud Watch, which is sponsored by the National Consumers League (NCL), 76 percent of the fraud complaints it received during the period between January and June of 2004 were related to online auctions. Consumers can report suspected Internet fraud by calling the NCL Fraud Hotline.

The safest way to steer clear of collectibles-related fraud is to learn everything you can about the items you collect and to buy and sell only with reputable dealers and auction Web sites.
Remember that collectibles do not offer interest or dividends. Also, you may have a hard time selling items at a good price on short notice. If your collection grows significantly in value, you will have to purchase insurance against damage and theft.

**Planning Investments**

*How do you choose the best types of investments?*

Investments such as stocks and bonds may not be very interesting or exciting, but as you can see in Figure 11.4, they have proven to be the most stable types of investments in the long run. Investing in collectibles may seem interesting, but it may not be the best way for you to achieve your financial goals.

Wise planning is the best way to get the most out of your investments. Be sure to research the types of investments that are available so you can make an informed decision. Weigh the advantages and disadvantages of each type of investment. Ask yourself how much risk and responsibility you are willing to assume. By taking these steps, you will be able to make a decision that is best for your financial future.

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**Section 11.2 Assessment**

**QUICK CHECK**

1. What are the risks of investing in precious metals?
2. Why do precious gems appeal to investors?
3. How has the Internet increased the risks of investing in collectibles?

**THINK CRITICALLY**

4. Describe two different scenarios: one that causes the price of diamonds to rise and one that causes the price to fall.

**USE MATH SKILLS**

5. **Golden Investment** In 1978, Raul bought 50 ounces of gold for $1,750 as protection against rising inflation. He sold half the gold in 1980 at a price of $800 an ounce. Raul sold the other half in 1982 when the price was $400 an ounce.

**Calculate** What was Raul's profit in 1980 and in 1982? What would Raul's profit have been if he had sold all of his gold in 1980?

**SOLVE MONEY PROBLEMS**

6. **Evaluating an Inheritance** Samantha inherited a diamond-and-ruby necklace from her grandmother’s estate. Unfortunately, the settings for the stones are damaged beyond repair. Samantha is trying to decide what to do with her inheritance.

**Analyze** Create a strategy that will help Samantha determine the value of her inheritance and how she might increase that value.
The owner of a direct investment in real estate directly holds the legal title to the residential or commercial property and is responsible for its maintenance and management. An indirect investment is similar to investing in mutual funds. A group of investors buys property, and legal title is held by a trustee. Real estate syndicates, limited partnerships, and real estate investment trusts (REITs) are examples of indirect investments.

The advantages of investments (syndicates and REITs) in real estate are: use as a hedge against inflation, ease of entering the market, and limited liability.

Lack of liquidity and diversification, risk of declining property values, fewer tax incentives, and potential management problems are disadvantages.

Precious metals include gold, silver, platinum, palladium, and rhodium. Precious gems include diamonds, sapphires, rubies, and emeralds.

Collectibles include rare coins, works of art, antiques, stamps, rare books, comic books, sports memorabilia, rugs, ceramics, and other items.

The value of precious metals and gems can fluctuate greatly, making them a risky investment. It is also difficult to predict the value of collectibles.

Your friend, Jeremiah, is the sole heir of a recently deceased relative. Jeremiah has discovered that his relative had invested in several REITs and Ginnie Mae certificates. Plus, Jeremiah found two diamond rings, as well as a collection of 40 Hummels, which are ceramic figurines made in Germany. Jeremiah asks your advice in determining which investments to keep and which to sell. Use the terms below to prepare your recommendations.

- direct investment
- commercial property
- indirect investment
- syndicate
- participation certificate (PC)

financial leverage
precious metals
precious gems
collectibles

1. Compare and contrast direct and indirect real estate investments.
2. List two advantages and two disadvantages of real estate investments.
3. Describe precious metal and gem investments and why they remain popular despite their speculative nature.
4. Explain what is meant by the term collectible, and give some examples of collectible items you or your family may own.
5. Explain why so many fraud complaints are related to online auctions.
**Chapter 11 Review & Activities**

### Communication Skills

**A friend of yours tells you that his parents plan to pay for his college education by selling some family jewelry.**

**Write About It** Write a paragraph explaining why you might question this plan.

### Comparative Return

**Imagine that you have $10,000 to invest.** Use a newspaper, the Internet, or other source to select a mutual fund. Use the same source to find out how much gold you could buy for $10,000. Track the performance of these two investments for 30 days.

1. **Calculate** (a) the rate of return if you invested the $10,000 and sold the investment 30 days later. Disregard tax consequences or mutual fund withdrawal penalties. (b) How much return would you receive if you had put the money in a savings account with 4 percent interest?

2. **Compute** by using graphics or presentation software to show the two investments’ performance.

### Connect with Economics

**Your brother recently graduated from college and started his first job. He rents half a duplex, but the owner has put the building up for sale. Your brother thinks that purchasing the building would be a good investment for him. He asks for your opinion.**

1. **Research** Use the newspaper or search the Internet to find current prices for duplexes.

2. **Think Critically** What are the positives and negatives of your brother buying the building? What factors need to be considered?

### Internet Connection

**PBS Antiques Roadshow** The PBS television program, *Antiques Roadshow*, has generated enormous interest among viewers to find out the value of the furniture, art, jewelry, and collectibles they own.

**Log On** Go to finance07.glencoe.com for a link to the Web site of the *Antiques Roadshow* television program.

1. Click on “Follow the Stories” and select an area of interest and at least three stories from the *Antiques Roadshow*.

2. Summarize the stories you selected in one or two paragraphs. Add more information by using an Internet search engine to find out more about the area of interest you selected.

### BusinessWeek Online

**Newsclip: A Piece of Childhood** Animation art, hand-painted images from which cartoons used to be made, is a popular collectible.

**Log On** Go to finance07.glencoe.com and open Chapter 11. Learn more about the different types of alternative investments, such as collectibles. Write a paragraph about the kinds of things you like to collect. Could any of them be valuable?
ALL THAT GLITTERS

Whether you want to buy precious stones and metals as an investment, a gift, or for yourself, you will have the edge when you know what you are buying. Test your knowledge of gems and precious metals. Write your answers on a separate sheet of paper.

1. Precious stones generally have more commercial value than semiprecious stones. Some precious stones are (choose all that apply):
   - ___ garnet
   - ___ diamond
   - ___ turquoise
   - ___ pearl
   - ___ ruby
   - ___ sapphire
   - ___ black onyx
   - ___ amethyst
   - ___ opal
   - ___ topaz
   - ___ emerald

2. Rank these precious metals from 1 (most valuable per ounce) to 4 (least valuable):
   - ___ silver
   - ___ gold
   - ___ platinum
   - ___ copper

3. The word brilliant describes a diamond’s ____________.
   - ___ color
   - ___ clarity
   - ___ cut

4. When it comes to diamonds, the word flawless refers to ____________.
   - ___ cut
   - ___ clarity
   - ___ color

5. All diamonds have a cubic crystal structure and are made primarily of ____________.
   - ___ boron
   - ___ nitrogen
   - ___ carbon
Russell inherited three diamonds from his grandmother and needs to decide whether to keep them or sell them. He already had them evaluated for the “4 Cs”—clarity, color, cut, and carat weight—but not their actual dollar value. He took the diamonds and the evaluation papers to the Diamond Mart downtown.

A sales representative at the Diamond Mart appraised them. The four-carat diamond was the most valuable because it was beautifully cut in a marquise shape, and it also had good clarity, meaning it had few microscopic bits of other elements embedded in it. Its color, which was very close to the whitest end of the scale, also added to its value. The other two diamonds, a matched set of one-carat gems cut as round brilliants, were of a higher quality in clarity but more yellow. The appraiser told Russell that the three diamonds could be worth $5,000, but gem dealers would probably offer him about half that. He also told him that the Diamond Mart would not be interested in buying them.

Russell went to another store that had a sign, “We Buy Diamonds,” but the most the store could offer was $2,350. Rather than settling for a price well below the actual worth of the diamonds, Russell decided to keep them in a safe-deposit box. By keeping them, he had the option of turning them into cash in the future, possibly selling them for more money. He also liked the idea of making them into jewelry someday. After researching his grandmother’s diamonds, Russell is now interested in finding out more about other gems. One day he would like to start a gem collection.

Apply

On a separate sheet of paper, list five things you might enjoy collecting that will keep their value or possibly be worth more in the future. Choose one and describe why it appeals to you. Describe how an expert could appraise its value, using such criteria as age, quality, rarity, and popular demand. Why would this collectible be interesting for you to keep?

Do you think it would be a good or bad long-term investment? Explain why.
Investment Strategies

Overview

Carrie and David are about to celebrate their 36th birthdays. Carrie recently accepted a new position as a fashion design supervisor at a sportswear company. David is now an assistant principal at a high school specializing in technology and Internet applications. Through the years, they have saved money in traditional savings accounts and certificates of deposit. In addition, Carrie has invested money in a 401(k) plan at work. Because David has been working for the public school system, he has been investing in a 403(b) plan. Besides saving for retirement, Carrie and David realize that they will have to accumulate enough money to put their children, Eva and Jack, through college someday. Therefore, they would like to expand their investment strategies.

Procedures

The Process

Imagine that you are a financial planner. Carrie and David have hired you to help them make investment decisions for their future. They have $25,000 in savings that they want to invest in stocks, bonds, mutual funds, and/or real estate.

1. Prepare a mock résumé for yourself as a financial planner. Showcase your experiences and qualifications so that Carrie and David will feel confident that they have hired an expert.

2. Recommend appropriate investment options for Carrie and David. To ensure a diverse portfolio, you must make at least three different recommendations.

3. Using the various sources of investment information (the financial section of a newspaper, business magazines, the Internet, investor services, and corporate reports), collect articles and other relevant information about the investment options that you will recommend. Your research should demonstrate to Carrie and David that your recommendations are sensible.

4. Contact a financial planner, investment counselor, banker, or accountant. Arrange for a time when you can either meet or speak on the phone to discuss the investment decisions you have made for Carrie and David. Prepare a report of your conversation.

Resources & Tools

- Career development book
- Crayons, markers, colored pencils
- Internet (optional)
- Multimedia tools (videos, music, and so on)
- Portfolio (ring binder or file folder)
- Poster board
- Presentation software (optional)
- Public or school library
- Word processor
**Create Your Portfolio**

As you work through the process, save the results so that you can refer, review, and refine. Create a professional-looking portfolio of investment recommendations that you will present to Carrie and David.

1. The first page should be a title page with the following information centered:
   - Investment Options
   - Presented to Carrie and David Lanier
   - By (Your Name)

2. Next include the résumé that you prepared.

3. Prepare a section in the portfolio for each investment option that you recommend. Include the recommendation and the research that supports your suggestion.

4. In the last section, include the report of the conversation you had with the financial expert you interviewed in Step A (4) on the previous page.

**Teamwork**

Teamwork is essential in today’s workplace. Many companies are replacing the traditional management with self-managed work teams. Team members must be able to accept more responsibility, communicate effectively, and get along well with others.

Create a team of at least four classmates. Prepare a 15-minute seminar and present it to other members of your class or to other classes in the school. Organize your team in order to accomplish the following tasks in the best and most efficient way possible.

1. Choose one topic from Chapters 8–11 for your seminar.
2. Prepare an oral presentation, using presentation software, multimedia tools, posters, or other visuals.
3. Draft a written outline and relate the topics to financial planning for Carrie and David in the presentation.
4. Create handouts for the audience.
5. Prepare a pre-test and post-test for the audience. Compile the results in a graph.
6. Present the seminar to your class or to other classes in the school.