# A Peek into the PRIME QUADRANT®


## Upcoming Events

### Investor IQ Series

June 23:
A Primer on Investing in Private Equity

August 12:
A Primer on Liquidity & Cash as an Asset Class

November 12:
**The Prime Quadrant Conference**

## What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which

# STORIES OF INTEREST

**Statistical Imperfections**
Whether it's sports or stocks, be wary of dangerous data fetishes and stats that don't add value.

**Economic Relevancy**
Why irrelevant things influence financial behaviours, and how traditional economic theory has got it wrong.

**Fund Managers Skimming Your Savings**
Why price discrimination is actually causing the rules of financial services to be rewritten.

**Don't Force Decisions**
Some of the biggest financial mistakes come from trying to force a particular outcome or decision. Writers remind us to simply back off and adjust.

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# THE WAY WE SEE IT

*Adapted from our recent IQ Series, Breaking Down Bricks & Mortar: A Primer on Investing in Real Estate.*

Recently, there was a Gallup Poll asking Americans what asset class they thought was the best investment bet over the long run, and the hands-down winner was real estate – exceeding stocks, bonds, gold, etc.

This leaves us with a question. Is there any truth to this notion of real estate's superiority as an asset class?

Nobel Prize winner Robert Shiller, has long advocated that the real return (after inflation) on residential real estate is effectively zero.

Similarly, in 2006, the M.I.T. Center for Real Estate undertook a study of long-term real estate prices, based on 100 years of commercial real estate transactions in Manhattan. The study reached two remarkable conclusions:

1. Adjusting for inflation, during that 100-year period, commercial property values actually had

you achieve the highest return per unit of risk.

Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

**Prime Quadrant is an investment research and consulting firm that helps high-net-worth Canadians make better investment decisions.**

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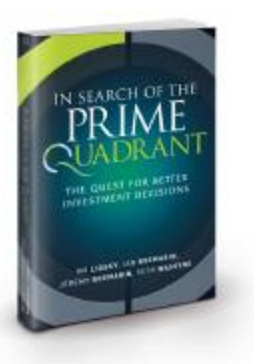
In Search of the Prime Quadrant: The Quest for Better Investment Decisions now available at Amazon, Barnes & Noble and Indigo.



fallen in value, despite a population growth rate of over 4%.
2. Within any decade commercial real estate values can rise and fall by 20-50%, in real terms.

In other words, real estate does not always make money, and it's not all about Location, Location, Location (as you don't get any better location than 20th century Manhattan).

So, how does this jive with the fact that some of greatest fortunes in North America were created in real estate?

In reality, of course, real estate is similar to any other asset class; it all depends on when you buy and when you sell. Therefore, what is of critical importance is understanding real estate cycles. Almost no one can create meaningful wealth in real estate, over the long term, without taking advantage of these cycles. Those who understand them (or just lucky enough to be at the right place at the right time) can profit immensely, and those who don't can lose not just their properties – but even their shirts.

To assist you in that effort, here is a simple summary* of these cycles.

| | Boom | Seller's Market | Balanced | Buyer's Market | Bust |
|---|---|---|---|---|---|
| Interest Rates | Very low (5-7%) | Low (7-8%) | Medium (8-9%) | High (9-11%) | Very High (11+%) |
| Prices | Very High | High | Medium | Low | Very Low |
| Cap rates | 3-6 | 7-8 | 9-11 | 12-13 | 13+ |
| Appreciation | High (10+%) | Medium - High (8-9%) | Medium (5-8%) | Medium-Low (3-5%) | Low (Under 3%) |
| Cash flow | Majorly Negative | Slightly negative | Breakeven to positive | Slightly Positive | Majorly Positive |
| US-based Examples | 2005-2007 | 1977-1979 | 1984-1989 | 1992-1994 | 1989-1991 |

**Please note that, while these cycles are based on empirical data from the last 100+ years, for every economic rule there are exceptions, and historic averages do not always apply.*

**"The ability to choose cannot be taken away or even given away — it can only be forgotten."**– *Greg McKeown*

PRIME QUADRANT

BETTER INVESTMENT DECISIONS

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