



## The Best Investment in the World Real Estate? Stocks & Bonds? Investing in yourself (your practice)?

As a licensed real estate broker (34 years) and a former stock broker (2.5 yrs) I have a bit of experience in these investments. **Real Estate: Up and down about 40% every 8 years!** **Stocks and Bonds: Up and down about 40% every 8 years!** **Investing in yourself by purchasing a practice: Steady Eddie - Practices have sold at about 100% to 125% of gross for the last 34 years, and with 5% to 10% annual growth!**

Having brokered over 1,600 accounting and tax practices, I can attest to a very stable market, high visibility of earnings, high level of liquidity, good financing availability, and a continued need for professional help (Thanks to the IRS and FTB).

Compare the risks of investing in real estate or stock/bonds or an accounting/tax practice:

- **Business risk** - The risk of the business you invested in is performing poorly. For example, the company is losing business due to competitors or poor customer service.
- **Currency risk** - The risk of fluctuating exchange rates. For example, it is possible the investment itself (say in Japan) provides a positive return of 10% but because the Yen loses 10% of its value relative to your currency the return to you is zero.
- **Inflation risk** - The risk of loss of purchasing power due to the increase in costs over time due to rising prices. Loss of value not associated with a decrease in the absolute value of the investment but rather a decrease in purchasing power over time.
- **Interest rate risk** - The risk of rising interest rates for an income producing investment (such as a bond). Bond prices move inversely to interest rate moves. So if interest rates increase the price of bonds will fall. For short term bonds (under 3 years) the change in prices will be relatively minor compared to the change in price for a long term bond (10+ years).
- **Liquidity risk** - The risk associated with trying to close out a position. For stocks liquidity risk is minimal for small amounts of stocks. Real Estate or corporate bonds can have much more substantial liquidity risk. Thus, you might have to accept a much lower price to attract a buyer in order to sell your investment when you wish to sell, or you will have to wait much longer to find a willing buyer.
- **Market Risk** - The risks associated with the overall market. For example, if the overall market suffers a large decline, that may well impact the return of a specific investment.
- **Regulatory risk** - The risk of a change in laws and regulation on the investment. For example, if the tax rate on dividends were to be treated as regular income (rather than given preferential status as they are now) the return to investors in investments paying dividends would decrease.
- **Fraud risk** - The risk of losing investments due to fraud, for example the company doctoring their books or an investment adviser taking assets. Some of these risks are partially covered by government insurance in the USA ([SIPC](#), [FDIC](#)) but only in certain situations and to certain limits.

## Bottom Line: Let your practice be your 401K

David C. Smith, Business Brokerage, Inc. Founder