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Property Versus Shares



Here's an example:

Bill and Ted both have \$40,000 in cash. Bill puts his down as a deposit on a property, while Ted uses his to buy shares.

Let's assume that in the first year, the value of Bill's property increases by 9.8% - and Ted's shares go up by 12.6%. Which was the better investment?

Bill's Property	Ted's Shares
Deposit \$40,000	Deposit \$40,000
Banks will loan 90%	\$360,000
Banks will loan 60%	\$60,000
\$400,000 @ 9.8% Capital Growth	\$100,000 @ 12.6% Capital Growth
Return \$39,200	Return \$12,600

Bill gets over 3 times a better return in property. Bill's equity has gone up from \$40,000 to \$79,200. That's a return of just under 100%.

Ted's equity has gone up from \$40,000 to \$52,600, a return of 32%.

So even if the shares have twice the growth factor, the property offers more than twice the growth in true capital worth (equity) - simply because of leveraging ability.

Source: "Seven Steps to Wealth" by John L Fitzgerald