Told You So

by Charley Reese

I've never been shy about saying "I told you so." Now we're seeing the foreclosures I predicted back during the real-estate boom. A lot of people are going to end up holding paper that isn't worth the price of the ink on it.

I make no claim to special vision and certainly no claim to being an economist. But I do like history. And I remember what I read. Florida had a big real-estate boom in the 1920s. It became so frantic that people were buying and selling options on property. Then it all collapsed.

An acre of ground that the week before sold for $6,000 couldn't be sold for $2. Some of the banks that had made foolish loans ended up with thousands of acres of palmetto scrub, and there was nothing they could do with it except pay the property taxes and hope for improvement sometime in the future. Florida was full of people who were "land poor," and for some it lasted well into the 1950s. Even some towns went belly up, because you can't collect taxes from people who don't have any money.

Ghostly monuments to the bust were all over Florida. You might see an ornate Italian arch over a dirt road where some developer had hoped to see thousands of people living. Now the dirt road just goes into the woods.

There was a dilapidated sign that said "Rocket City" outside of Orlando as late as the '70s. The nearby paved streets were cracked with weeds and grass. Not a house was visible. It was so isolated, the cops said drug dealers would land small planes on the streets in the middle of the night.

In West Florida, right on the beach was a three-story concrete shell that had intended to be a hotel.

Of course, things did improve decades later. The stock salesmen are correct when they say to invest for the long haul. The trick is to remember that human life doesn't last for the long haul. Many a poor man died during the Great Depression.

Greed drives the booms and inflates the bubbles. Insiders usually cash out before the bubble bursts, but those suckers someone said were born every minute are lulled into believing that what goes up keeps going up and never comes down. I long ago gave up the belief that you can save people from themselves.

One factor people often overlook is inflation, which is depreciation of the dollar's buying power. The town house I live in was probably built for no more than $14,000 in labor and material and initially sold for maybe $25,000. Now, years later, it's appraised at about $110,000. Well, guess what? It didn't turn to gold during those passing years. In fact, it got older and, as all things do, began to wear out. In other words, $110,000 inflated dollars will buy you a secondhand $25,000 house. And, of course, if the neighborhood goes to hell, even the inflated price will fall.

I learned something else from observation: The economy is like a yardstick that floats upright in the water. The high-income folks are at the top. The low-income folks are at the bottom, just above the waterline. When the economy dips, the low-income people go under, while the high-income people stay dry. So the market for high-end products will keep on chugging even as the low-income folks drown.

The old rules of sound personal finance always apply, especially during a bubble. Don't live beyond your means. Don't buy more than you can pay for. Don't expect to get rich quick. And don't confuse salesmen for friends or advisers.

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