

The *Mix*

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Mishpacha

A Potpourri of Encounters and Impressions

THE MONEY TRAP

REAL PEOPLE.

REAL MONEY.

REAL MISTAKES.

FOREWARNED IS FOREARMED

Shloimy was a few years out of kollel, barely making ends meet and casting around for ways to earn some extra cash and pad the family savings account. After successfully renovating their own home, flipping houses sounded like the perfect investment.

Why not buy older houses, renovate them, and turn them around for a quick windfall? An online webinar estimated up to \$200,000 profit on each house. But when a deal seems too good to be true, it usually is. How to navigate the fine line between making it work and falling into so much debt that there's no recourse but to declare bankruptcy?

Too Good to Be True



[THE PLAYERS]

Name: Shloime and Ruchy Weiss
Age: Mid- to-late 30s
Number of Children: 4
Location: Not far from Lakewood

[THE BAIT]

A get-rich-quick scheme that, although it has already been proven to make money for other people, nevertheless involves substantial risk.

[THE BACKGROUND]

Shloimy and Ruchy found themselves in a situation facing many young Orthodox families. Shloimy was a couple years out of kollel, and his income from his *kiruv* position was covering their costs — but just. There was no wiggle room in their monthly budget. With a growing family and no savings, Shloimy began to cast about for ways of earning some extra

cash and building a nest egg.

The national media has devoted hours of coverage and gallons of ink over the past two years to the “house-flipping” rage. With plenty of foreclosed homes still for sale after the 2008 Great Recession, a market opened for the purchase and rehab of these houses by investors hoping to recoup their money by selling the refurbished properties when real-estate values rebound.

There’s no doubt about it — house flipping is hot right now. Real-estate analysts report that the practice reached a ten-year high in 2016, with the 193,000 flipped homes accounting for nearly six percent of all residential sales for the year. The trend shows no immediate signs of slowing: In the first quarter of this year, the average gross profit on a flipped house was \$58,520.

House flipping is not the only scheme out there promising robust and rapid returns on investment. Established manufacturing concerns in China eager to draw foreign funds — especially

dollars — put out lavish promotional materials extolling their financial health and confidently assuring eager but naive Americans that now is the time to climb aboard the bandwagon.

The problem with these schemes, of course, is that they inherently carry substantial risks. Experienced investors know how to weigh these risks — but perhaps more importantly, their balance sheets show the wherewithal to absorb losses as well. Someone lacking the smarts and the pocket change is likely to be overwhelmed by little unforeseen glitches — like a foreclosed house concealing a major structural flaw, or a company located in a faraway jurisdiction with a poorly regulated financial sector.

These problems can lay the perfect trap for an earnest young father looking to strike it rich and provide for his family in style. The siren of these enticements drowns out the little voice inside that cautions: If it sounds too good to be true... it probably is.

RUCHY’S STORY //

My husband was learning in kollel back when we purchased our home for \$220,000. We renovated it and ended up with a really nice home for a great price. A couple of years later, as it became more of a struggle to support our growing family, my husband decided to flip houses as a way to supplement his income. After all, he already had the experience of successfully renovating our own home. An online webinar sweetened the pot by touting potential profits of \$200,000. Why not buy older houses and renovate them and then turn them around for a quick windfall? We could even demolish a run-down house and build two new homes on that lot and earn twice the money.

The problem was that we didn’t have any savings at all, or any way to do this. That didn’t stop my husband, though — he was as excited as a kid to get underway. His job didn’t follow a nine-to-five work schedule so he could devote plenty of time to searching out the right opportunities.

I was very, very skeptical about all this, and was not shy about saying so. But my objections that we didn’t have this kind of money just lying around to play with fell on deaf ears. He can be a very impulsive person. I have no clue exactly how he did it, but he somehow borrowed the money for a down payment on a property.

FLIP-FLOP

At that time banks were giving out mortgages like the candy man in shul, and Shloimy put our combined income on the loan application to show we’d be able to pay it back.

Unfortunately Shloimy forgot to take into account one tiny important thing. We learned the hard way that accurately estimating rehab costs is the whole key to

Reining In Wild Horses

Shloimy is not an anomaly. According to Moshe Elias, head of the business division for Mesila, “Again and again, we see families making investments that turn out to be very high-risk, resulting in financial loss and, in some cases, bankruptcy. The question we hear a lot is, ‘How can we recognize what is risky and what is not? Should we steer clear of all investments?’”

He says that while it can be a financial windfall when families take advantage of lucrative opportunities, it’s critical to obtain guidance from an experienced financial advisor before risking one’s money, especially with a first-time investment.

Mr. Elias advises would-be investors to ask themselves these key questions:

• What is your experience in this specific area? How many similar deals have you done previously?

If the answer is none, then please be aware that you are in a danger zone. Just seeing a video or getting some tips from a friend is not enough. In this situation, the risk is greater than the opportunity. So how do you clear away the smoke and clarify the picture? You have to speak to an experienced investment advisor who has traveled this route many times and knows what risks may arise and how to deal with them. The main component for success is having the right consultant at your side.

• Does the investment involve a large amount of money? Is this nearly all the money you have? If you lose it, will you fall apart financially?

If the answer to any of these questions is yes, you are squarely in the high-risk zone; you may have crossed into it without noticing. Seasoned investors do not make commitments that threaten their financial status. Never put all your eggs in one basket. You must be able to honestly say, “If the deal fails and the money goes down the drain, I can live with it.”

• Do you have the right personality for this particular investment? Does your spouse agree to the investment?

If the answer to either of these questions is no, then run away and don’t look back. The catch is that it is often difficult for a person to recognize his or her own weaknesses; most people lack this self-awareness. In this case, what can be done? Usually, the spouse knows when the choice being considered is not a good one, and may even be dangerous. That brings us to a tough question: How do we persuade a spouse to stop when he does not want to? This is not easy, but it can be done, with the right personal guidance.

• Are you investing because other people are investing and you trust their judgment?

If the answer is yes, time once again to flash the warning sign. Do not unquestionably trust the financial judgment of family, friends, or neighbors. They usually have not done their due diligence. Also, be aware that the people around you have different levels of risk tolerance; they might have spare money that they are not so afraid to lose. If the group you seek to join includes an experienced investor with years of proven success, then, of course, your own investment advisor will value his input.

making this business work. It takes even the best rehabbers years of experience to master this art. Shloimy ended up pouring so much money into this property, for so long, using all the wrong contractors... and then he couldn't meet the mortgage payments.

I think it went into a short sale or a foreclosure – I don't remember what happened exactly. Just that it was bad. The worst part was that we had to declare bankruptcy. That brought a whole host of other financial hardships with it. At least the whole bitter experience cured Shloimy of his enthusiasm for house flipping.

A YEN FOR THE YUAN

A few years after our real-estate debacle,

Shloimy found another scheme to light his fire. This time, it wasn't a house, it was a financial scam. A supposedly thriving Chinese sports-clothing manufacturer was promising investors hefty yields. A few of our friends were taken in by the shpiel, and Shloimy went along with them. I told him it all sounded a little too good to be true, but I guess at a certain point, it really doesn't matter whether or not the spouse agrees. If a person is really fixated on doing something, no one is going to be able to stop him.

I don't know how this investment worked, exactly. All I know is that my husband, once again, was able to borrow the money required for the initial investment. He actually did earn a return on that investment the first couple of quarters. I think a lot of Ponzi schemes work that way. But then they demanded an additional commitment.

He had to borrow the money for that, too. You can probably guess what happened after that. We never saw that money again. That was another big loss.

NO BAYIS, NO SHALOM

We went through our share of *shalom bayis* problems because of all this. People

who are thinking of investing their family's money should know that their spouse – whether the wife or the husband – should have a voice in the decision, because it affects the whole family. Also, I think people should discuss these decisions with a rav or a business consultant, before just going in blindly. These kinds of investments might turn out to be lucrative for some people, but just assuming that you'll make money too because the market is strong... that's not smart. Especially if you don't have the money to back it up.

After we had to declare bankruptcy, we didn't have credit for a long time. In one sense, not having access to credit kept us out of trouble – no one would give my husband money for more shenanigans. It also forced us to rein in our household budget. If you make bad investments like that, it's an indicator that you might buy a lot of things you aren't able to pay for. It can take up to ten years to clear your credit record after declaring bankruptcy.

I was advised that I should take care of the finances for a while – paying all the bills – because my husband was just not able to do it. I still take care of the finances today, even years later, and I think my husband knows deep down that this is the right way to go about it. I think

it also gives him peace of mind that I'm in charge of the pocketbook, since he's the impulsive type and has a hard time thinking through the consequences of his actions, rushing into things that sound exciting.

That's the hard part. I can try outwardly be a good wife, but I really have to work on my inner respect for him. I want to respect him as a person I can rely on, but these rash decisions make it such a struggle.

OUR LOSS, OUR GAIN

In a certain sense, I am thankful for those losses. It could have been much worse. If Shloimy had been

successful – with either the house flipping or the Chinese investment opportunity – it may have led him further down that dangerous path, and we probably would have lost way more than we did. Now, it's like he has burnout. He lost a lot – a lot – of money, and most of it wasn't even his. I hope that one day he will be able to pay everybody back, but right now I can't even imagine how.

He doesn't like to talk about it, and he will never admit anything – he's just not that type of person – but I hope, I hope, I hope he won't do it anymore. Even recently I happened to notice my husband looking into what I fear is yet another lure for his impulsive personality. I feel like I have to constantly be on guard. Although we barely make it through the month, if we do, part of me feels thankful that we don't have extra money to play around with, because if we did I have no clue what would happen to it. So right now, being poor is a *brachah!* ●