# The Ten Worst Bets

Almost thirty years ago in 1989, I advised my readers on the ten worst bets for the year. Topping the list was overpriced real estate in New England, New York, and California followed by Japanese stocks and real estate.

My long-time followers may recall how real estate prices fared after that projection.  Housing prices cracked in all three regions and entered a severe downturn. Anybody levered and long in residential real estate took it in the neck.

According to the Case-Shiller real estate indices for Boston, New York, and L.A., the peak to trough decline in prices ranged from 15% to 27%. A 20% down payment on a house was wiped out in the crash. In L.A., it took more than a decade to get back to even after accounting for inflation.

How did Japanese stocks fare in 1989?

The Nikkei 225 index was up almost 30% for the year (in local currency terms).

That was a bad call…

Indeed it was, but only for the first 12 months.

The Nikkei peaked on December 29th of 1989. Over the ensuing 14 years the Japanese shares lost 80% of their value. To this day, the index remains 45% below its all-time high.

My timing was off, but the direction was not.

I don’t mention these past projections to boast. I call them to your attention because both projections were based on a careful consideration of risk. For the prudent investor, risk must always come before return.

Things could have turned out differently for U.S. house prices and Japanese stocks, and that would have been fine. The point is that the risk one had to take to participate in those markets far outweighed the potential reward.

I see many pockets of unfavorable risk/reward relationships in today’s financial markets. Some of these assets may not fare as poorly as house prices and Japanese stocks did 30 years ago, but the prudent approach is to avoid them.

Caution, balance, and diligence remain the mandate for your serious money today.