Wealth Builder

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LEGACY WEALTH MANAGEMENT, LLC

Housing Affordability Becoming a Multi-Generational Goal

by Mike Berry, CFP®

Purchasing a home has long been a goal for most of us in our financial plan. Home ownership is important in building one's net worth. It is the largest asset many people have. It has always been a pretty achievable goal for most families. Get out of school, get a job, start saving for a downpayment, find a decent starter home, get a mortgage and move in. Pretty simple, but a lot has changed.

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"What Should I Do with Excess Cash?"

By Dan Funderburk, CFP®, CKA®

This is one of the most common discussions I have with clients.

If this is a question you're asking, take a step back and realize how nice it is that you get to ask the question in the first place. Not many people around the globe get to ask that question. Keeping a grounded perspective is important, and gratitude towards your current situation will go a long way.

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Housing Affordability Becoming a Multi-Generational Goal

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More and more I'm finding that my clients with children, especially college aged children, have a goal of helping their children get into a house. They have likely paid off their own home and see that without some type of help, their children are unlikely to be able to get into a house. It's not that their children are "deadbeats", it's that housing prices have taken off, while wages have not.

If you are in your 20's, and renting, depending on where you are you could be paying $2000 a month for a one-bedroom apartment. I recently heard on the radio that many people living in New York City are using almost 67% of their monthly income on rent. That doesn't leave much for other living expenses, much less saving any money for a downpayment.

Even with higher mortgage rates, prices on houses have remained stubbornly high because the supply of homes for sale is so small. People who bought or refinanced their homes in the past five years at rates of 3% to 4% are reluctant to sell and buy a new home at a 7% rate. In the past twelve months the median monthly mortgage payment nationwide has gone up $240 or 13%. Not too many people out there are getting a 13% pay raise.

To combat all this, parents are now looking at their financial plans and trying to come up with creative ways to get their children into homes. Downpayment assistance is one of the ways. As of the second quarter of 2023, the median price of a home in the U.S. is $416,100. Even a small downpayment of 5% requires almost $21,000. Then the child must be able to qualify for a monthly payment of $2650, or the parents may have to come on as a co-borrower and possibly help with that payment.

Parents are also looking at buying the home outright, either with cash or some type of financing and then working out an affordable payment plan with the child. This again requires a fairly large up-front sum of money and some type of monthly outflow.

This type of help can have a dramatic effect on the parent's long term financial plan. Much like planning for college expenses, long term care costs and retirement income, planning for children's first home might well be done early as part of the parents' overall financial plan.♦

Sources:

1.https://www.fool.com/the-ascent/research/average-house-price-state/#:~:text=Average%20home%20price%20in%20the,when%20the%20median%20was%20%24329%2C000.&text=MEDIAN%20SALES%20PRICE%20OF%20HOMES%20IN%20THE%20U.S.

Wisdom from the Oracle By Jeff Funderburk, CFP®

Warren Buffet turned 93 years old on August 30th. The longtime fixture head CEO of Berkshire Hathaway, affectionally known as "The Oracle of Omaha" (he's lived in the same house in Omaha, NE since 1958), has written an annual letter to shareholders for decades. He's appeared on countless news and finance programs over the years. In these letters and interviews is a treasure trove of simple and pragmatic investing philosophies. Given his immense success in investing – when the Oracle speaks it's best to pay attention.

When I saw that it was his birthday, I thought it'd be great to revisit some of his best quotes to remind us all that investing successfully doesn't have to be complicated. Here's I few I Googled up that I find particularly insightful:

"The first rule of an investment is: don't lose. And the second rule of an investment is don't forget the first rule. And that's all the rules there are."
—1985 shareholder letter

"If principles become dated, they're no longer principles."
—1988 shareholder letter

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."
—1989 shareholder letter

"What we learn from history is that people don't learn from history."
—2004 shareholder letter

"Price is what you pay. Value is what you get."
—2008 shareholder letter

"It's never paid to bet against America. We come through things, but it's not always a smooth ride."
—2009 NBC Interview

"A simple rule dictates my buying: Be fearful when others are greedy and greedy when others are fearful."
—2008 interview with The New York Times *(Note the timing of this one – right in the middle of the financial crisis).*

And my personal favorite:

"It's only when the tide goes out that you learn who's been swimming naked."
—1993 shareholder letter

Warren is coming to the end of his time as the CEO of Berkshire Hathaway, but his brilliant quotes and investing philosophies will remain timeless. Happy Birthday Warren!♦

"What Should I do with Excess Cash?" *Continued from p. 1*

To help put this in perspective, let's review the five principles that lead to financial success:

5 Principals of Financial Success:

- ***Spend less than you earn***
- ***Avoid the use of debt***
- ***Build liquidity***
- ***Set long-term goals***
- ***Give generously***

If you're asking what you should do with your excess cash, odds are you're already hitting Principles 1 and 2, and well on your way to Principles 3 and 4. Having liquidity is a fully funded emergency fund at a minimum, but the "excess cash" we're talking about is cash above and beyond your emergency fund. This is where long-term goals come in.

So, if you have excess cash what should you do with it? To answer this, I find it helpful to assign a timeframe to your money:

0-2 Years:

For money you plan on using within two years, the best place is the bank. This could be a high-yield savings account, money market, or CDs. The idea here is to protect what you have. Try to find the best interest rate available, but make sure you're not putting it at risk while maintaining FDIC insurance.

Why the bank and not invested somewhere else? Simple: the financial markets are unpredictable. You may not have enough time to recover from temporary stock market declines with short-term money. Protecting what you have is more important than reaching for incremental gains with short-term money.

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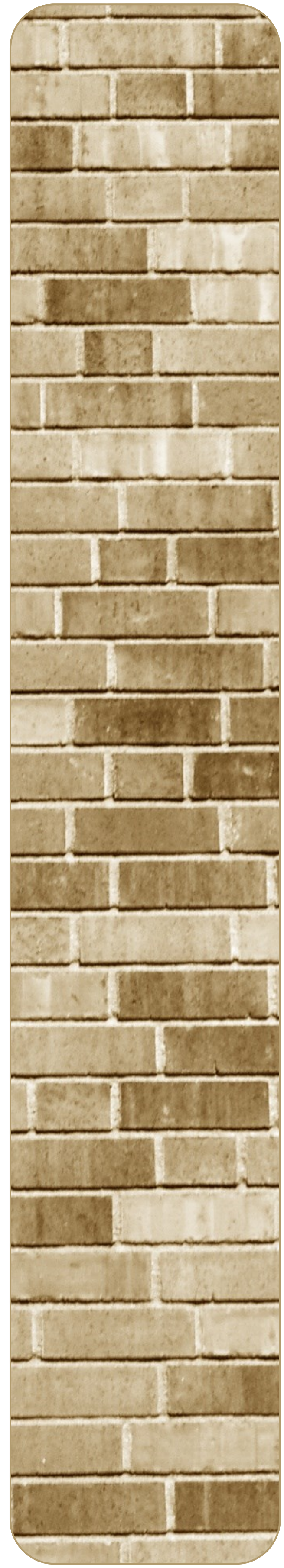
"What Should I do with Excess Cash?" *Continued from p. 4*



2+ years:

For cash you don't plan on touching for at least two years, it probably makes sense to get your money out of the bank and invested. Whether it's a mid-term goal like buying a car in five years, or a longer-term goal like retirement, you should be able to do better by investing the money rather than parking it at the bank. A timeframe of more than two years should buy you enough time to ride out short-term bumps in the market.

The specifics of where you put your longer-term money is nuanced. Is it for retirement? Maybe bumping up your 401k or prioritizing Roth IRAs is the best place. For your kids' college? Maybe a 529 makes sense. A home downpayment? Maybe a simple brokerage account is the winner. This is where talking to a financial advisor is beneficial – they know the options and can help you align your money with your goals.

Other considerations

Keep in mind I'm only discussing cash above and beyond a fully funded emergency fund. Your emergency fund should always be readily available in the bank. This money should sit there until a financial emergency occurs, at which point it should be used, and then replenished as soon as possible.

If you have excess cash but are carrying debt, paying off or paying down your debt may be the best option. If it's consumer debt (i.e., credit cards or car loans), paying it off is a no-brainer. Carrying debt on depreciating assets is a tough pill to swallow in my book. If it's student loans, a mortgage, or a business loan, the answer is more nuanced and worthy of a conversation with an advisor.

Having too much cash is a good problem to have, but it's still a problem. We should be intentional with our money. Sitting on cash for a specific purpose could be just fine. However, if we're sitting on cash out of fear or simply neglect, taking an honest look at our motives along with our goals could help bring some clarity around what we should be doing with it. If there truly is nothing we can think to do with our excess, it's clear we have more than enough, and we should discuss the best way to be generous with that money to help others. After all, giving generously is the fifth principle of financial success.♦

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