FREE

THE CLIENT LETTER

MONTHLY NEWSLETTER

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Two Steps Up and One Step Back

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One of my biggest regrets is never seeing Bruce Springsteen in concert. Regardless of anyone's opinion of him, no one can deny that he gives his audience their money's worth during a 3+ hour concert. One of my favorite Springsteen songs is entitled "***One Step Up.***" It is about a man whose relationship and life are not where he wants it to be and the signature line in the song describes his life as "***one step up and two steps back***."

Fortunately, for investors, I would describe financial markets as generally ***two*** steps up**,** and ***one*** step back. This is because investment returns are not usually linear. To invest in stocks, bonds, real estate, etc. means giving up a guaranteed known return in exchange for possibly *greater* returns over time.

The difficulty and sometimes frustrating part of such volatility is the timing of one's investment. If an investor enjoys the two steps up initially, it is much easier to stomach one step back. After all, it is more palatable to lose a hand in blackjack if you already won the first two. But if that investor bears the brunt of one step back *initially*, they are forced to extend their time horizon and exhibit a longer-term patience in order to hopefully enjoy the two steps up.

2022 reminded us that markets can go down as both stocks and bonds experienced simultaneous bear markets. Of course, if you were fortunate enough to experience positive returns in the three previous years (2019, 2020 and 2021 were generally good years in most markets), then 2022 was much more manageable. But if your initial experience was 2022, many investors had to wait a couple of years to realize their expected returns. This, dear friend, is why:

A) markets are impossible to time, and
B) patience is many times the most precious of all investing skills

Indeed, a lack of patience is, perhaps the best way to earn subpar returns, and end up like Bruce Springsteen…going ONE step up and TWO steps back.

<u>Your home as an investment?</u>

I bought my first house in 1991. It was a newly renovated craftsman on Murphy Road in Sylvan Park. At the time, we paid $99,000 for this 1600 square-ft estate castle (appropriate sarcasm intended). We ended up outgrowing and thus selling that house in 1993 for $116,000. I thought I killed it.

It wasn't until recently I saw that same house valued on Zillow at $957,000. At first glance, it appears this would have been a great investment to hold over that time. But applying pencil to paper yields a slightly different answer.

You see, a home as well as most any residential piece of real estate, requires taxes, insurance, maintenance and upkeep. These are the costs homeowners must endure, but rarely consider when evaluating real estate as an investment. For an average priced home today, one can expect to spend $15-$20,000 annually for these items.

When I went back and applied the costs necessary to keep that Sylvan Park home insured and properly maintained, it would have cost approximately $310,000 over the past 31 years. Once these costs are factored in, along with the 31-year time frame, the average annual rate of return earned on this property was actually only about 3.8%.

And while that is not terrible, it simply isn't the eye-popping returns many think when initially evaluating real estate. In fact, the same investment made into many different securities or asset classes would have yielded significantly better results in hindsight. But of course, a home provides much more personal value than just investment return. After all, one does need a place to live and raise their family. No, my point here is to simply illustrate the components of investment return. Most people simply evaluate the beginning and ending value. If ending value is higher, they consider it a good investment. However, you must also consider the length of time as well as cash flows needed to maintain the asset.

Another common misconception we see with clients is wishing to downsize their home at retirement and capitalize on the equity windfall that might provide. On paper, the transaction seems reasonable enough. Sell a home for, say $1 million, buy a retirement condo for $500,000 and pocket the additional $500,000 to add to the portfolio.

Anecdotally, we have found that to be a more difficult exercise in real time. It seems we all get used to a certain level of quality and attributes for the place in which we live. We find that when many retired couples start looking at $500,000 condos, they realize it also means sacrificing things such as perhaps building quality, garage access or bathroom space (trust me, this gets more important the older I get).

Of course, we have seen this work, and in some cases, downsizing makes sense for other reasons besides financial. But this is why we generally do not include home equity value when running retirement income projections for clients. After all, even if you live in the ***Biltmore Estate***, it won't help you pay your expenses unless you sell it.

Note from Edie:

Just a reminder that any forms that are mailed must be returned in a timely fashion. Our industry is notorious for updating forms and if an update occurs while a form is outstanding, it must be resent with the new "updated" version. It is also a reason we are adopting e-signature via Docusign as often as possible. This is a much more timely and efficient way to process forms – just FYI.

2024 Forbes Best-in-State Wealth Advisors

I want to thank Edie and Cole as our team was once again honored to be named as one of the best in state wealth advisors by **Forbes**. This ranking, developed by SHOOK Research, is based on qualitative criteria as well as quantitative data. Advisors are selected based on things such as assets under management, compliance record, industry experience, as well as best practices in their approach to working with clients. And while we are honored by this recognition, we realize it is only a function of advising clients and helping them reach ***their*** goals first.

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit – we appreciate the many referrals we have received over the years and encourage the introduction to others. Edie, Cole and I are happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

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"2019, 2020, 2021, 2022, 2023 RJFS Leaders Council Member"
"2019 Bank Investment Consultant Top 100 Bank Advisors"
2024 Forbes Best-in-State Wealth Advisor"

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RJFS Leader's Council Member
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Top 100 Bank Advisors (2019)
To compile the list, multiple variables were combined into one composite score. The six categories used are: (1) assets under management; (2) trailing-12 month production; (3) percentage increase in AUM from the previous year; (4) percentage increase in T-12 production; (5) amount of fee business; and (6) the ratio of production-per-AUM. (Note: 2018 AUM was defined as the amount an advisor had as of Aug. 31, 2018. Likewise, for T-12 production, the 12-month period ending Aug. 31, 2018, was used.) The nominees were ranked by each of the six categories and then six different scores were calculated based on where they ranked. Those six scores were used to compile the final list. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. BIC is not affiliated with Raymond James.

2024 Forbes Top Wealth Advisors Best-In-State, developed by Shook Research, is based on the period from 6/30/2022 to 6/30/2023 and was released on 4/3/2023. 42,108 nominations were received and 8,500 advisors won. Neither Raymond James nor any of its advisors pay a fee in exchange for this award. More: https://bit.ly/43DMgjX. Please see https://www.forbes.com/best-in-state-wealth-advisors for more info.