# OnWealth

Financial Advice from Wealth Management Services

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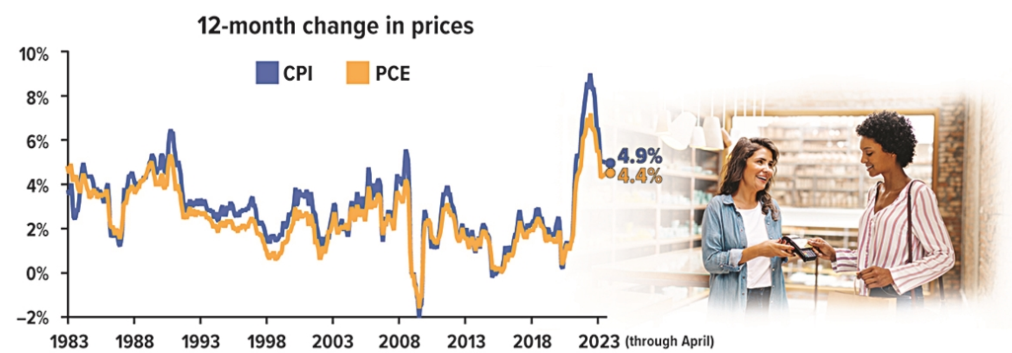
**4.6%**

Annual rate of "supercore" inflation in April 2023. Supercore is a metric that excludes goods, food, energy, and shelter, which are all categories that have been especially volatile over the last year. By contrast, the Consumer Price Index for all items increased 4.9%.

Source: Bloomberg, May 26, 2023

## Inflation Gauges Don't Always Paint the Same Picture

Economists and investors rely on the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index to track the path of inflation over time. The two indexes use different formulas and data sources — CPI gets data from consumers and PCE data comes from businesses. PCE is broader in scope and some expenditure categories are weighted very differently. In late 2022, the difference between annual inflation as measured by CPI and PCE was the widest it has been since the 1980s.




Sources: U.S. Bureau of Labor Statistics, 2023; U.S. Bureau of Economic Analysis, 2023 (data through April 2023)

# Financing Options to Help You Ride the Mortgage Rate Roller Coaster

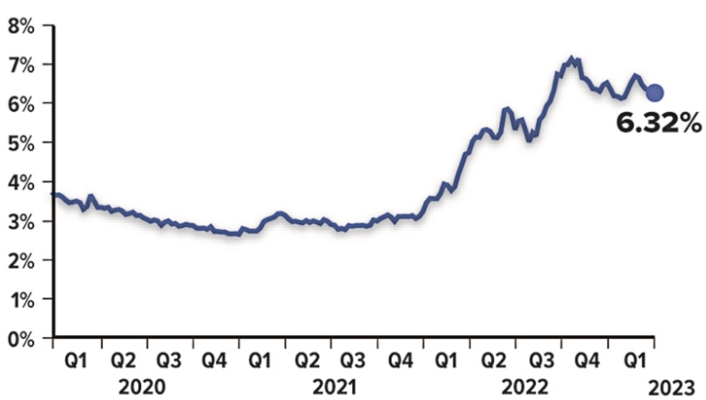
The mortgage industry has been on a roller coaster ride over the last couple of years. Interest rates for fixed-rate mortgage loans were at historical lows during the beginning of the pandemic in 2020, rising to a 20-year high in late 2022 — and fluctuating ever since.[1] Many buyers are finding it difficult to afford a new home with traditional fixed-rate mortgage loans in such a high interest rate environment. As a result, more buyers are relying on alternative financing options to help lower their interest rates.[2]

## Adjustable-Rate Mortgages

With an adjustable-rate mortgage (ARM), also referred to as a variable-rate mortgage, there is a fixed interest rate at the beginning of the loan which then adjusts annually for the remainder of the loan term. ARM rates are usually tied to the performance of an index. To determine the ARM rate, the lender will take the index rate and add it to an agreed-upon percentage rate, referred to as the margin. Most lenders offer ARMs with fixed-rate periods of five, seven or 10 years, along with caps that limit the amount by which rates and payments can change.

The initial interest rate on an ARM is generally lower than the rate on a traditional fixed-rate mortgage, which will result in a lower monthly mortgage payment. However, depending on interest rates, buyers with ARMs may find themselves with significantly higher mortgage payments once the fixed-rate period ends. Buyers should only consider ARMs if they can tolerate fluctuations in their mortgage payments or plan on refinancing or selling the home before the initial interest rate period ends.

### 30-Year Fixed Mortgage Interest Rates, January 2020 to March 2023




Source: Freddie Mac, 2023 (data through March)

## Temporary Buydowns

A temporary buydown provides the buyer with a lower interest rate on a fixed-rate mortgage during the beginning of the loan period (e.g., the first one or two years) in exchange for an upfront fee or higher interest rate once the buydown feature expires. Buydowns typically offer large interest rate discounts (e.g., up to one to three percentage points, depending on the type of buydown). The costs associated with the buydown feature can be paid for by the home buyer, seller, builder, or mortgage lender.

While a buydown can make a home purchase more affordable at the beginning of the loan period, the long-term interest rates and mortgage payments on the loan can end up being substantially higher. This is why a borrower usually must initially qualify for the loan based on the full interest rate in effect after the buydown expires.

## Assumable Mortgages

Assumable mortgages may be another way for buyers to circumvent high mortgage rates. An assumable mortgage is when a buyer takes over a seller's existing loan and loan terms and pays cash or takes out a second mortgage to cover the remainder of the purchase price.

This type of loan could be advantageous if the existing loan has a low enough interest rate, and the buyer has enough access to cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan. Not all mortgage loans are assumable — generally they are limited to certain types of government-backed loans (e.g., FHA, VA loans).

## Other Incentives

One type of incentive offered by lenders is for a buyer to pay an upfront fee at closing, also known as points. By paying points at closing, buyers can reduce their interest rates — usually by around .25 percent per point — and lower their monthly mortgage loan payments. To make paying points cost effective, buyers should plan on staying in the home for several years so that they can recoup the costs. Sometimes a home builder or seller will offer to pay for points on a mortgage in order to attract more potential buyers.

Another incentive, often referred to as a "future refi," is one that allows borrowers to purchase a home at current interest rates, with the ability to refinance their loans at a later date. The refinancing can be free or the costs can be rolled into the new loan, depending on the lender and loan type. Keep in mind that there is typically a set time period for refinancing with these types of loans.

1-2) Consumer Financial Protection Bureau, 2022

# Mutual Funds: What's in Your Portfolio?

Mutual funds pool investment dollars from many individual investors to purchase a group of selected securities aimed at meeting a particular objective. This offers a convenient way to invest across a wide range of market activity that would be difficult for most investors to do by purchasing individual securities. More than 52% of U.S. households owned mutual funds in 2022.[1]

Here are some basic types of funds in order of typical risk, from lowest to highest. This is just an overview — with over 7,000 funds to choose from, you should be able to find appropriate investments to pursue your financial goals.[2]

**Money market funds** invest in short-term debt such as commercial paper and certificates of deposit (which generally provide a fixed rate of return). They are typically used as a cash alternative and/or as a fund for settling brokerage transactions.

**Municipal bond funds** generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

**Income funds** concentrate on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

**Balanced funds, hybrid funds,** and **growth and income funds** seek the middle ground between growth funds and income funds. They include a mix of stocks and bonds aimed at combining moderate growth potential with modest income.

**Value funds** invest in stocks of companies that appear to be undervalued by the market. They are more volatile than balanced funds, but typically offer dividend income and may have solid growth potential if the market recognizes the underlying value.

**Growth funds** invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

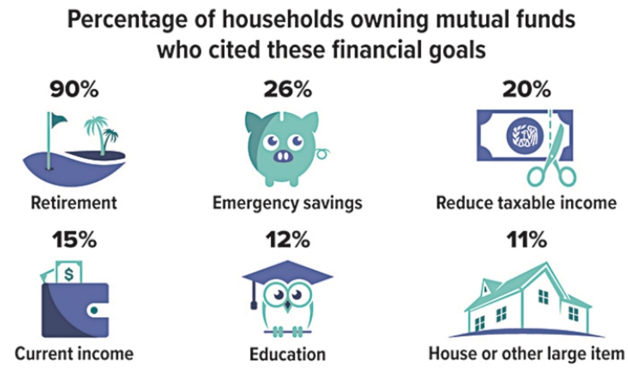
**Global funds** invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

**Sector funds** invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

**Aggressive growth funds** aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

## Reasons to Invest

Four out of five households who own mutual funds cited retirement as their *primary* reason for investing. However, many investors own funds to pursue multiple financial goals.




Source: Investment Company Institute, 2022 (multiple responses allowed)

Bond funds (including funds that contain both stocks and bonds) are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are typically not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher returns also carry an increased level of risk.

*Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although a money market fund attempts to maintain a stable $1 share price, you can lose money by investing in such a fund.*

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1–2) Investment Company Institute, 2022–2023

# Should You Organize Your Business as an LLC?

There's a certain amount of risk that comes with owning a business. Accidents can happen no matter how well a company is run, and a lawsuit could be devastating if the business is found to be at fault.

A limited liability company (LLC) is a business structure that offers many of the same legal protections as a corporation. Establishing an LLC creates a separate legal entity to help shield a business owner's personal assets from lawsuits brought against the firm by customers or employees.

In theory, the financial exposure of the owners (members) would be limited to their stake in the company, but exceptions may include any business debt they personally guarantee or misdeeds (such as fraud) they carry out. But just like a corporation, an LLC can lose its limited liability if the owner does not follow formalities that continue to exhibit the separate existence of the business — which is known as "piercing the veil."

Beyond liability protection, there are some additional benefits associated with LLCs.

**Tax efficiency.** An LLC is a pass-through entity for tax purposes, so a firm may pass any profits and losses to the owners, who report them on their personal tax returns. Members can elect whether the LLC should be taxed as a sole proprietorship, a partnership, an S corporation, or a C corporation, provided that it qualifies for the particular tax treatment. For example, about 71.5% of business partnerships are LLCs, as are 8.8% of sole proprietorships.[1]

**Credibility.** Starting an LLC may help a new business appear more professional than it would if it were operated as a sole proprietorship or partnership.

**Simplicity.** In most states, an LLC is easier to form than a corporation, and there may be fewer rules and compliance requirements associated with operating an LLC. The management structure is less formal, so a board of directors and annual meetings are not usually required.

**Flexibility.** Being registered as an LLC may facilitate growth because it's possible to add an unlimited number of owners and/or investors to the business, and ownership stakes may be transferred easily from one member to another. LLCs may also be owned by another business.

The specific rules for forming an LLC vary by state, as do some of the tax rules and benefits. A written operating agreement that outlines the division of ownership, labor, and profits is a common requirement. It generally costs more to form and maintain an LLC than it does to operate as a sole proprietor or general partnership, but for many businesses the benefits may outweigh the costs.

1) Internal Revenue Service, 2022 (most recent data from 2019)

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