ASSET PLANNING, INC.

Quarterly Newsletter

QUARTER 1 | MARCH 2022

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Is a 40-Year Mortgage a Good Idea? *By Sandy*

Everyone is aware of the red-hot housing market right now. Houses are being bid up over their selling price by thousands of dollars. Buyers are suffering fatigue from looking for a house, submitting an offer, and finding out they have been outbid once again. Now that interest rates are rising, the average 30-year mortgage rate is 4.67% and the 15-year loan is 3.83% (as of 3/31/2022), with many current rates seen going closer to 5%. I compared a 30 and 40-year mortgage considering Southern California prices, please see the results in the table below:

	30-Year Mortgage	40-Year Mortgage
Home Value	$ 1,000,000.00	$ 1,000,000.00
Down Payment (20%)	$ 200,000.00	$ 200,000.00
Loan Amount	$ 800,000.00	$ 800,000.00
Interest Rate	5.00%	5.00%
Total Monthly Payment (without property taxes and insurance)	$ 4,295.00	$ 3,858.00
Total Interest Paid	$ 746,046.27	$ 1,051,635.00

You will pay a whopping $1,051,635 in total interest with a 40-year mortgage, which is more than the value you purchased the home for! This is $305,588.73 more in total interest than you would pay with a 30-year mortgage. While a 40-year loan may look like the more affordable option towards purchasing your dream home, it may not be the most valuable as you will end up paying much more in total interest over the duration of the loan.

A 40-year mortgage is not considered a qualified loan (qualified loans can have terms no longer than 30 years and meet the traditional income verification methods). Nonqualified loans have fewer legal regulations and may come with additional provisions. There is also no limit to closing costs, so you may end up paying much more than you would on a qualified 30-year loan. Additionally, your equity would build much slower since you're paying more towards interest than your principal, especially in your early years. For many homeowners who don't keep their mortgage for the entire term due to moving or refinancing, they would likely see little return or value.

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Erin's 15 Year Anniversary at Asset Planning!

We celebrated Erin's work anniversary with yummy pastries and flowers! Erin is an integral part of this team and we were so happy to celebrate this milestone with her!

Market Review *By Carol*

Inflation, geopolitics, and rising rates weighed on markets in the first quarter. Inflation surged to 40-year highs, the Federal Reserve promised to raise interest rates faster than previously thought, and Russia surprised the world with a full-scale military invasion of Ukraine, marking the first major military conflict in Europe in decades. Those factors fueled a rise in volatility and pushed stocks lower in the first three months of the year.

Value stocks outperformed growth stocks. On a sector level, only two of the eleven sectors in the S&P 500 finished the first quarter with a positive return. Energy was the clear standout as the sector benefitted from the increase in oil and natural gas prices in response to the Russia-Ukraine war. Utilities, a traditionally defensive sector, had a modestly positive return as investors rotated to defensive sectors. Sector laggards included the communication services, tech, and consumer discretionary stocks.

Switching to fixed income markets, bonds had their worst performance in years. Shorter-term bonds outperformed longer-duration bonds as high inflation and the threat of numerous future Fed rate hikes weighed on fixed income products with longer durations. Note – we realize that the intermediate to long term individual bond values are decreasing, but they are still paying more interest as compared to cash. Our goal is to collect the interest (coupon) payments and hold them to maturity and be paid back in full for the bonds (Similar to a CD).

The following are the market returns as of March 31, 2022 YTD. Please note, each client's portfolio is individually constructed and the benchmarks are presented as a comparison tool.

Benchmarks:	YTD - March 2022
60% Equity/40% Fixed	-5.73%
50% Equity/50% Fixed	-6.11%
40% Equity/60% Fixed	-6.72%
US Agg Bond/REIT Index	-6.12%
S&P	-4.95%
DOW	-4.57%
Nasdaq	-9.10%
iShares (EFA) Foreign	-6.46%

Benchmarks:	March 2021- March 2022
60% Equity/40% Fixed	3.65%
50% Equity/50% Fixed	2.80%
40% Equity/60% Fixed	1.02%

ADV (Advisor Disclosure Form) Notice & Updates *By Carol*

Each year we are required to update and file our Investment Advisor Brochure (Form ADV 2) with the SEC. There were no material changes to report on the ADV this year - our fees and business structure are staying the same. Please contact us if you would like a copy of the entire ADV mailed to you. You can also access our ADV on the internet via our website under resources or directly through the SEC: http://www.adviserinfo.sec.gov/. Our SEC file number is 801-62993.

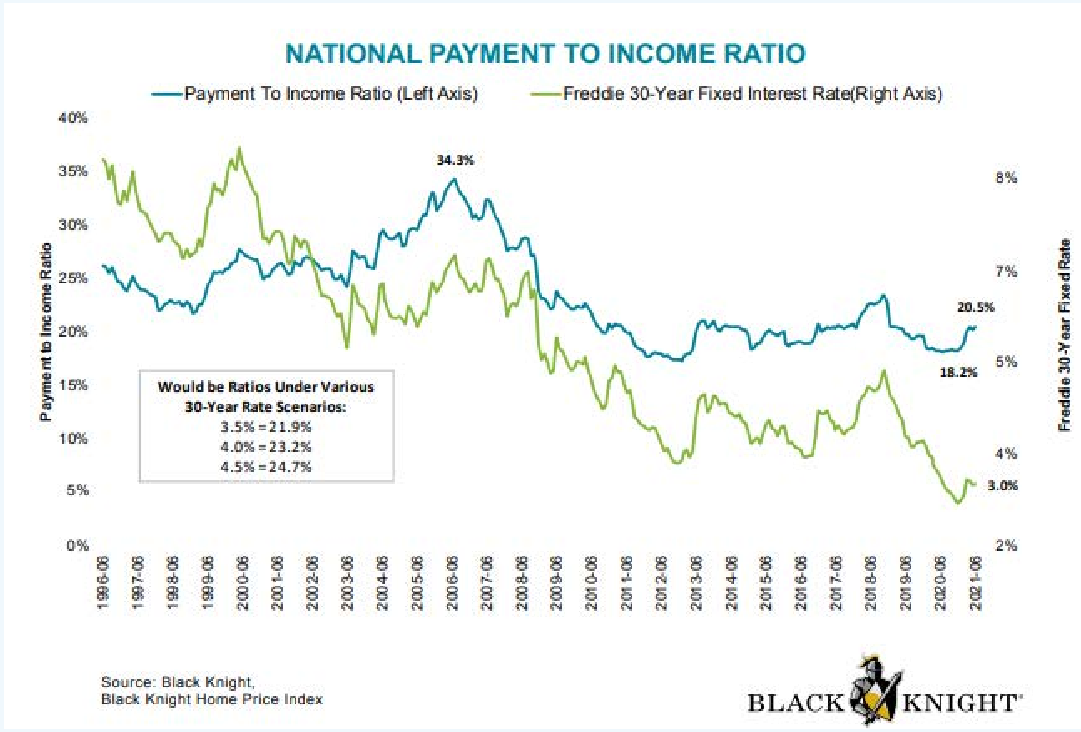
Our total assets under management as of December 31, 2021 was $445,513,644, an increase of 18% due to increases in market value and new assets. We now have 330 client families across 18 different states! While 80% of our clients reside in California, we saw an increase of clients moving out of California and retiring in other states.

Housing Market Nearing Top? *By Erin*

In response to the economy coming to a halt at the onset of Covid in 2020, the Federal Reserve slashed interest rates and began purchasing $40 billion a month in mortgage back securities igniting a housing frenzy reminiscent of our last bubble. Last year was the first year on record that all our nation's top 100 housing markets produced growth rates in excess of 10%. The top four locales, Tampa FL, Austin TX, Raleigh NC, Phoenix AZ, saw prices increase over 30%. I'm sure many of you are wondering how long this could go on. There are definitely some warning signs emerging that the top may be near.

Affordability, as measured by how much the average 30-year mortgage payment consumes one's budget, is nearing peak figures last seen at the 2007 housing bubble top. As of April 4th, the national mortgage payment to income ratio rests at 32% as 30-year mortgage rates shot up near 5% this week. As you can see in the chart below, the national average payment to income hovered between 20-25% in the 12 years after the 2008 crash. If a buyer with 10% down had a $4,000 house payment budget, in December they could have afforded a $1,013,333 home at a 3.13% rate, with rates climbing to 5% now they can only buy an $827,778 house to keep the same payment.

The additional pressures of inflation and the Federal Reserve winding down their purchases of mortgage-backed securities (MBS) will further the risk of declining home prices. This year, MBS purchases have already been cut in half. The decreased liquidity in the MBS market only adds to mortgage rate increases. Furthermore, household budgets will have less to spend on housing if inflation persists. To combat inflation the Fed is fast tracking interest rate increases.



In short, eventually, the majority will be out of homes unless prices decline, or the government comes up with another way to artificially prop up the housing market. If you are looking to buy a home soon, I would only recommend proceeding if you plan to live there a minimum of 10 years and have the ability financially to take a large hit should you need to sell in a downturn.

Is a 40-Year Mortgage a Good Idea? *Continued...*

When buyers are trying to qualify for a home, it is done by the percentage range of your housing budget to your income. With a lower payment, you can qualify for a higher purchase price of a home. The guideline is that you should spend less than 28% of your monthly gross income on your mortgage payment, including taxes and insurance. Your total debt, including credit cards, loans, and car payments, should not exceed 36% of your gross monthly income. You must also consider that property taxes increase every year (capped at 2%/year increases in California) and additional home insurance you may need to purchase (such as earthquake coverage or if you are in a flood area like many parts of Long Beach).

With this in mind, it is probably better to purchase a less costly home that you can afford to pay within a 30-year loan period.

Market Outlook *By Carol*

As we start the new quarter, markets are facing much uncertainty as the same conditions (inflation, the Russia-Ukraine conflict, and increasing interest rates) are still a concern. On the other hand, the US economy is still growing, unemployment rates are low, and consumer spending is still strong. Investing in these conditions is not easy but we continue to look at the long term.

This year, as always, it is prudent to review your financial objectives to determine if your assets and income are positioned to satisfy your future needs.

Please let us know anytime there is a change in your financial situation or investment objectives.

Also, we are happy to review your accounts that are not held at Asset Planning, especially your 401K allocations.

"Despite the forecast, live like it's Spring". Lilly Pulitzer