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Special Interest Articles:

Trust Human Progress, Not the Stock Market
(Front page)

Should I be Paying Down My Mortgage?
(Front page)

"The future is no more uncertain than the present."

-Walt Whitman: American Poet, Essayist and Journalist

Trust Human Progress, Not the Stock Market

By Christopher W. Beale, CFP®

"I don't trust the stock market". I've heard that a lot over my 33 year career. It may even be the way you're feeling right now. Did the negative double-digit returns of the S&P 500 at the beginning of the year (which was the worst January in the history of the stock market), only to be followed by a positive double-digit return since mid-February, leave you feeling the same queasiness as riding the Wildcat roller coaster, the oldest continuously operating wooden coaster, at Lake Compounce in Bristol, Connecticut? As the chart on page 2 shows the S&P 500 has a positive return in 27 of the last 36 years. Of course that means we've had nine years of negative returns during that time. The average annual return for the 36 years has been over 11%. But in order to enjoy that 11% return you must have been able to endure an average, temporary, intra- year decline of 14.2%.

The easiest call I could've made at the beginning of the year would have been to tell you to bail out when the markets were declining and sit out this widely predicted start of a painful bear market. Some analysts were talking openly about another 2008-9 drop in share prices. But now you know, since I just told you, that the average year sees the stock market decline by more than 14% between January and December.

So how do we balance the legitimate short-term fears against the long-term reality that most of us--to realize our goals of retirement or college funding--need the higher returns that long term investing has historically provided? At New England Capital we attempt to achieve this dual goal by having a longer term focus and allocating your money between equities, fixed income and money market investments.

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Should I Be Paying Down My Mortgage?

By Christopher M. Lee, CFP®

With the current low interest rates for mortgages and the present status of the stock market, should you be putting extra payments onto your mortgage and pay it off faster, or should you rather invest that money? Thanks to a suggestion from a client, we will try to give you some solutions in this article.

First, let's first start with this case study. Teddy and Donald Smith recently re-financed their house for $200,000 for a 30 year mortgage at 3.75%. Their monthly payment for principal and interest and is $926, *which does not include taxes or homeowners insurance*. Let's assume that they make 1 extra payment per year. By making that one extra payment, they chop 4 years off their mortgage, finishing in roughly 26 years. Meanwhile, Hillary and Bernie Jones took out the same mortgage, but rather then make an extra payment on the mortgage; they invested that annually for the same 30 years at a 6% rate of return. For this same example, let's assume that after the mortgage is paid off, Teddy and Donald save their $926/monthly for 4 year years at 6%, which the results are shown on the chart on page 3:

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“Government’s view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.”

-Ronald Reagan
American Politician and Actor
Served as the 40th president of the U.S.

Trust Human Progress, Not the Stock Market

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As most of you know I'm fond of saying I need to provide you with a balanced and diversified portfolio that allows you to sleep tonight and eat tomorrow. This means the longer-term returns discussed above as well as the intra- year declines can be lessened when we invest in different asset classes such as stocks, bonds, cash accounts. Our goal is to provide the best risk-adjusted return based upon many factors including your goals, age, time frame and risk tolerance. The actual allocation we provide will depend upon whether you are looking to create wealth, preserve wealth, or efficiently distribute wealth.

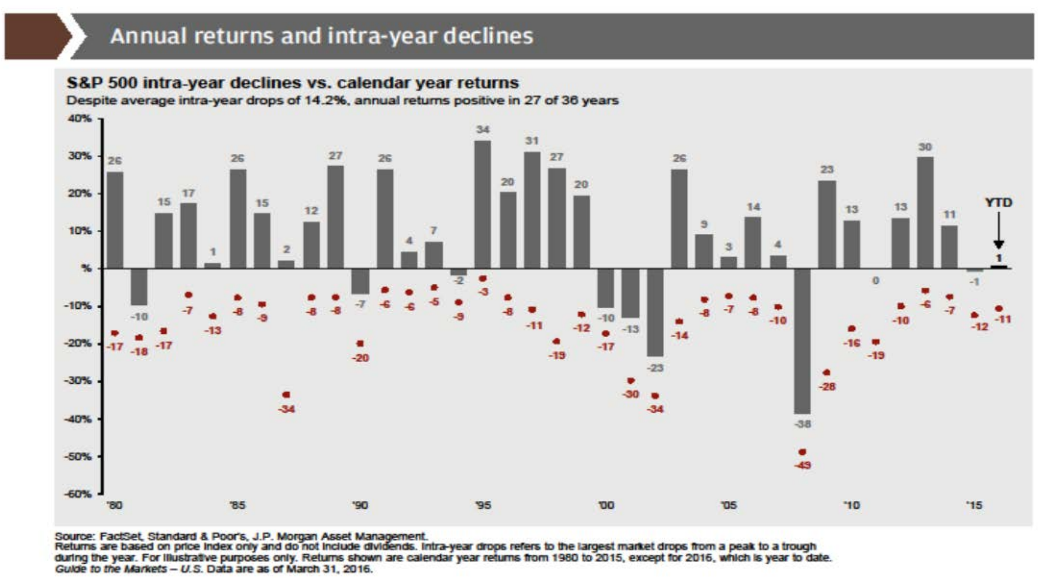
Let me close with a question I hear quite often. "What’s going to happen in the future?” Although this is impossible to answer with certainty, my belief is that we always under estimate the progress that's being made because we think in a linear fashion instead of exponentially. Human progress is in our DNA. We want better for our children and grandchildren. This is a universal desire that crosses all races and nationalities. Personal development is a multi-billion dollar business. This is why we make resolutions each New Year. Self-help books, websites, and TED Talks all tell us how we can improve…improve spiritually, socially, financially, physically, as well as our relationship and our careers.

We are living in an age of such exponential change, especially in areas such as technology, communication, and medicine (both traditional as well as complimentary medicine). Self-driving cars, social media sites, and mapping the human genome were not even on our radar screen 10 years ago. I didn't use a computer when I started in this business. I've just counted 9 computers, two servers, six virtual servers, four laptops and 13 computer monitors currently being used in my office now.

It is very difficult to wrap our minds around this exponential change environment we live in today. Let me use an example from my years of being a soccer referee to explain the difference between linear and exponential growth. After calling a penalty I would need to count off 10 yards to give a distance between the spot of free kick and the defenders. I still have the ability to pace off 10 yards by taking 10 steps. This is a linear concept of distance. But to think exponentially, each step we take is twice as long as the previous one. Our first step is 1 yard the next step is two yards, and by 30 steps we will have traveled 1 billion yards or a distance equal to 26 trips around the equator.

This rapid change is very difficult for us to understand but it accurately describes the evolution of many of the technologies and medical services that we enjoy today. I don’t have to “Trust the Stock Market” to have faith in human progress. Our lifestyles, especially in the United States, have benefited tremendously by human progress. I do know that my participation in the companies run by humans that create this progress have helped me to create and preserve wealth for me and you, the clients of New England Capital.

I’m so looking forward to seeing you in the future!



Source - JP Morgan Guide to the Markets - 2Q 2016

Should I Be Paying Down My Mortgage?

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Example 1: Paying down the mortgage

	In 15 Years	In 26 Years	In 30 years	Total Mrtg Interest Paid	Total Mrtg Extra Payments	Deposit into Investments	Investment Net Profit
Mortgage Balance	$109,072	$0	$0	$114,308	$24,082	-	-
Investment Balance	$0	$0	$54,283	-	-	$48,171	$6,112

Example 2: Invest the extra payment

	In 15 Years	In 26 Years	In 30 years	Total Mrtg Interest Paid	Total Mrtg Extra Payments	Deposit into Investments	Investment Net Profit
Mortgage Balance	$127,365	$41,225	$0	$133,443	-	-	-
Investment Balance	$21,559	$54,792	$73,226	-	-	$27,787	$45,439

"Government of the people, by the people, for the people, shall not perish from the earth."

-Abraham Lincoln
16th President of the U.S.

As you can see, after 30 years (and both mortgages are equally paid at this point) the couple that invested that extra annual payment had an extra $18,943 than the couple that did not, even though the couple that invested the money paid an extra $19,135 in mortgage interest!

These numbers work because of the current low interest rate environment for mortgages and may not always be the case. This was a very basic example that does not take into account tax deductions for mortgage interest. Please know that the mortgage decision is rarely ever this simple. It depends on your specific situation – your tax rate, mortgage interest rate, investment return, portfolio allocation, credit history, ability to save and risk tolerance.

I have to admit that I am a fan of having the mortgage paid off by retirement time. The reason behind that is that if you have a mortgage payment of $1,000/monthly (not including property taxes or homeowners insurance), then you would need to have approximately $300,000 in investments to cover that monthly cost (utilizing a 4% distribution rate). Once your mortgage is paid off, you would not need that $300,000 or at least be able to use that money for other fun discretionary things – like travel!

The example above shows what you could have, depending on what you do with the money for the extra payment. Some **Pros** to paying off your mortgage early include:

Peace of mind. If paying off your mortgage means you are less likely to panic when your portfolio value is down, it may be a good idea. Investing in a portfolio of stocks and bonds is more risky than using the same funds to reduce a mortgage, and therefore, should have a higher expected return.

Good savings vehicle. If you are not a good saver, by paying off the mortgage, it creates a form of forced savings.

Tax Deduction versus interest paid - Why pay $20,000 in interest to get $6,600 back from the IRS? It does not make sense just to have a mortgage for the tax benefits alone. Generally, the tax benefit of the mortgage interest deduction is most meaningful for families with high income and significant other itemized deductions. As you continue to pay for your mortgage over the years, the tax benefit becomes less and less and you pay more interest in the early years.

On the flip side, some **Cons** to paying off your mortgage early:

Leverage. By borrowing for long periods of time at low rates and investing the difference, you may likely end up with more wealth versus paying off the mortgage.

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Inflation Hedge. Over a 30-year history, assuming the borrower makes all the monthly payments, the bank can never call the loan. This provides for a fixed payment for 30 years that will never change. Taking inflation into account, it's possible that 20 years into the mortgage, the payment will be equivalent to an electric or similar bill.

Don't pay off the mortgage early if you're not staying put. You may be planning to sell your house within 5 years and it may not make sense to stick that extra cash into the mortgage payment. You may be better off keeping it liquid, rather than tying it up in the house. If you plan on living in the house for at least 10 years after the mortgage is paid off, it may make sense to pay it off.

If you have not built up a safe cushion in the bank (3-6 months living expenses), then it is not a good idea to put that money back into paying down the mortgage. For example, what happens if you need to replace the roof, windows, or furnace; the money will not be available unless you charge it or take out another loan.

Paying off debt, on the other hand, is risk-free, which provides a substantial emotional benefit that is not measurable in dollars and cents. Some people prefer the peace of mind than a few hundred thousand dollars of potential economic gain.

If you are interested in coming up with a personalized strategy for you and paying down your mortgage versus investing, please call our office to set up a meeting and we can come up with a plan specifically for you! Many times we have developed a hybrid strategy of investing an extra payment, which may give you the flexibility down to the road to pay off your mortgage earlier if you wish. In the meantime, get that fire pit ready - as some day – with some careful planning, you too can have a Mortgage Burning Party!

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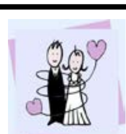
-Walt Whitman
American Poet, Essayist and Journalist



NECFA NEWS… ….

Congratulations to the Bride & Groom!
Ann Marie Ocone & Gary Maratea were married in a beautiful ceremony on March 19th 2016
We wish them many years of happiness together!

This month the Jump$tart Coalition announced the Connecticut Jump$tart Coalition as State Coalition of the Year at its Annual Awards Banquet, which celebrates and honors the accomplishments of the financial literacy community. Our own Chris Lee (Connecticut Jump$tart President) was on hand to accept the award for our state! The State Coalition of the Year Award recognizes the affiliate's effectiveness and innovation in reaching, supporting and assisting teachers; its public awareness activities; the level of participation and collaboration within the coalition itself and other achievements over the past year.