FINANCIAL ink

Your Money Management Newsletter

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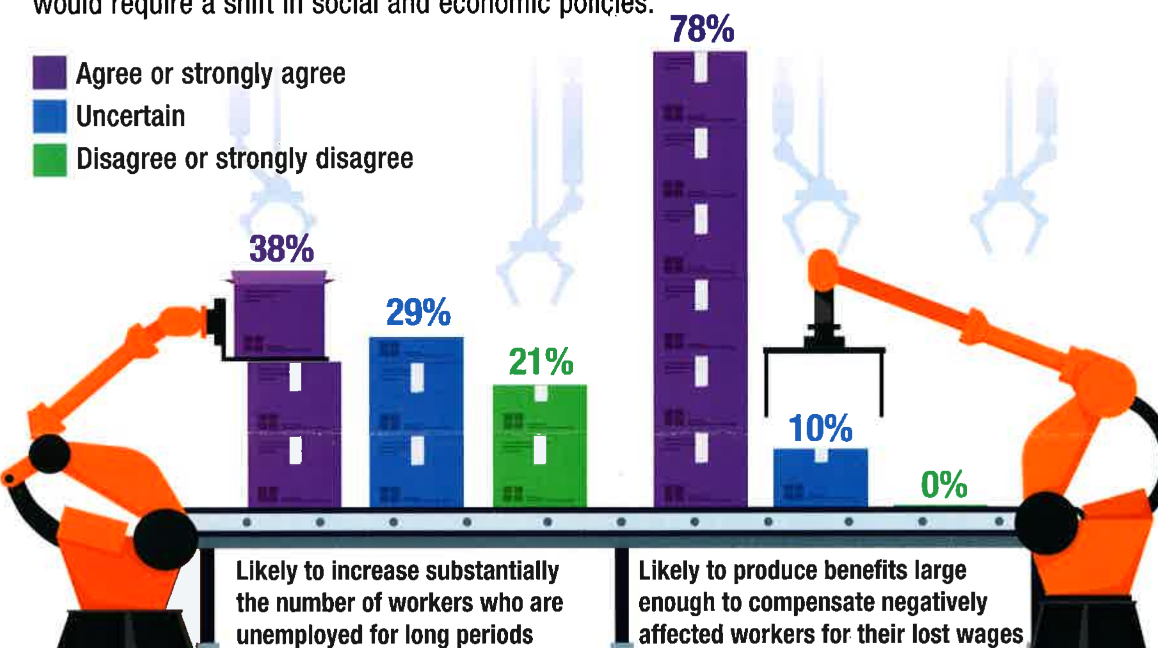
Robots: Friend or Foe?

When economists from top U.S. universities were asked to assess the impact that the rising use of robots and artificial intelligence could have on workers, many felt that these advances would lead to greater unemployment (38%), but the majority believed that the benefits of increased productivity could be used to compensate workers for their lost wages (78%). This would require a shift in social and economic policies.



Source: IGM Forum, 2017 *(some economists declined to answer because the questions were outside their fields of expertise)*

$2,782

Average tax refund for the 2017 filing season, up from $2,750 in 2016.

Source: Internal Revenue Service, 2017 (through 9/1/2017)

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Practical insights for your **FINANCIAL GOALS**

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Your Home and the Big Picture

In December 2016, a widely cited index of national home prices finally reached the peak level set in July 2006 before the housing crisis and the Great Recession. Home prices continued to rise throughout 2017, reaching a succession of new all-time high records for the index.[1]

Local prices vary widely, and the trend may change if prices become too high for the market and/or rising interest rates make mortgages more expensive. For now, however, home values are generally high, which can be good for sellers, challenging for buyers, and a mixed bag for those who want to move from one home to another. This might be a good time to think about how owning a home fits into your broader financial picture.

Investment, Savings, or Shelter?

During the 30-year period from 1988 to 2017, the national median price of a single-family home rose by an average of 3.72% annually — a reasonable return considering the lost decade after the housing crisis.[2] However, it's also important to factor in the associated costs: real estate transaction fees, property taxes, maintenance expenses, and mortgage interest. A 30-year $200,000 loan with a 4% interest rate would cost more than $143,000 in interest over the life of the loan.

By contrast, stocks in the S&P 500 index had an average annual return of 10.55% over that period, which included some big losses during recessions.[3] And while there are costs associated with investing in the stock market, they do not begin to approach the costs of owning a home. Of course, stock prices are much more volatile than home prices, and you can't live in your stock portfolio.

Regardless of the return on investment, purchasing a home is often a sound financial move, helping to provide the lifestyle you want for your family while directing money you might be spending on rent toward building equity. In effect, it's a type of forced savings. For this reason, you might consider a home as part of your retirement savings strategy — but don't underestimate other assets you need to accumulate to enjoy a comfortable retirement.

Finding a Balance

Rather than depending on your home for investment or savings, it might be wise to seek a balance between building home equity and making regular contributions to your retirement savings at a level appropriate for your long-term goals. If this seems like a tall order, you may want to cut back on other expenses or consider ways to reduce your mortgage payments. If you are looking to purchase a home now or in the not-too-distant future, assess whether the home you have in mind will allow you to save for the retirement you envision.

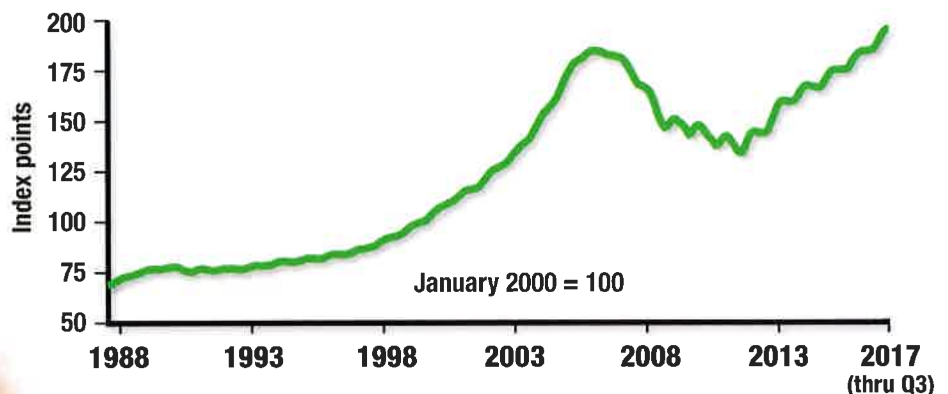
Owning a home has long been a part of the American dream, but so is a comfortable retirement. With a realistic budget and a disciplined approach to savings, you may be able to have both.

1–2) S&P Case-Shiller U.S. National Home Price Index for the period 12/31/1987 to 9/30/2017

3) Thomson Reuters, 2017, for the period 12/31/1987 to 9/30/2017. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

On the Rise

National average price of a single-family home, as tracked by the S&P Case-Shiller Index, which uses a point system rather than dollar values to represent changing prices.



Source: S&P Case-Shiller U.S. National Home Price Index, January 1988 to September 2017

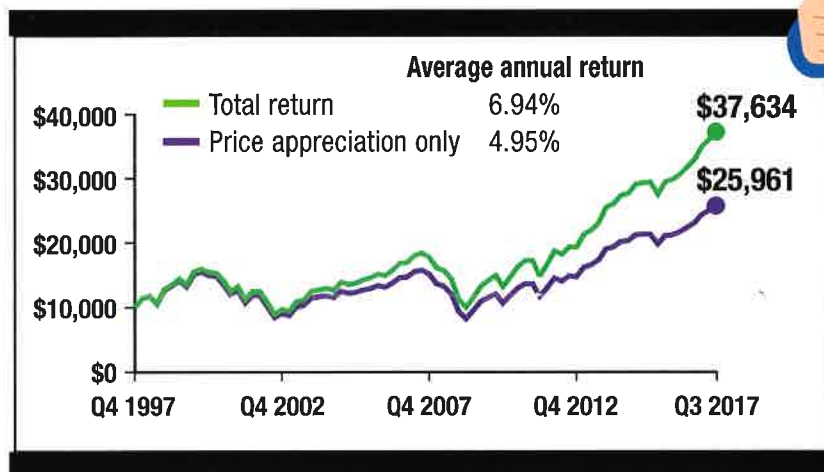
Dividend Investing: Small Payments Can Boost Returns

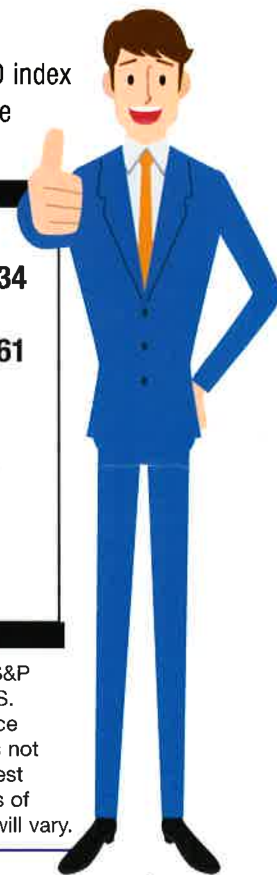
Owning shares of stock or stock funds might increase the value of your portfolio in one of two fundamental ways: capital appreciation (i.e., price increases) and dividend payments. Of the two, capital appreciation carries the greatest potential for return, but it also carries the greatest potential for loss. And any gains or losses are only reaped when you sell your shares.

By contrast, dividends typically offer more consistent modest returns that are paid while you hold your shares. For this reason, dividends have long been popular with retirees and others who are looking for regular income. But focusing on dividends can be appropriate for almost any investor, especially if dividends are reinvested to purchase additional shares. Although reinvesting dividends from individual stocks may not be cost-effective, mutual funds and exchange-traded funds (ETFs) generally offer an option to reinvest dividends and/or capital gains.

Long-Term Power

Growth in value of a hypothetical $10,000 investment in the S&P 500 index from 1998 to 2017, comparing price appreciation and total return; the difference is primarily due to the additional return from dividends.





Source: Thomson Reuters, 2017, for the period 12/31/1997 to 9/30/2017. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Growth and Volatility

In general, more established companies tend to pay dividends, and these companies may not have as much growth potential as newer companies that plow all of their earnings back into the company. Even so, dividends can boost total return. A 2015 study found that dividends had accounted for about one-third of the total return of the S&P 500 index since 1956, with the other two-thirds from capital appreciation. In the third quarter of 2017, more than 80% of S&P 500 stocks paid a dividend with an average yield just under 2%. Many mid-size and smaller companies also paid dividends.[1]

Because dividends are by definition a positive return, even during a down market, dividend-paying stocks may be less volatile than non-dividend payers. However, dividend stocks tend to be more sensitive to rising interest rates; investors looking for income may move away from stocks if less risky fixed-income investments offer comparable yields.

Quarterly Payments

Dividends are typically paid quarterly in the form of cash or stock. The amount is set by the company's board of directors and can be changed at any time. Dividends can be expressed as the dollar amount paid on each share or as yield — the annual dividend income per share divided by the current market price. When the share price falls, the yield rises (assuming dividend payments remain the same), enabling investors who reinvest their dividends to buy more shares that have the potential to grow as market performance improves.

Investing in dividends is a long-term commitment. In exchange for less volatility and more stable returns, investors should be prepared for periods where dividend payers drag down rather than boost an equity portfolio. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs 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.

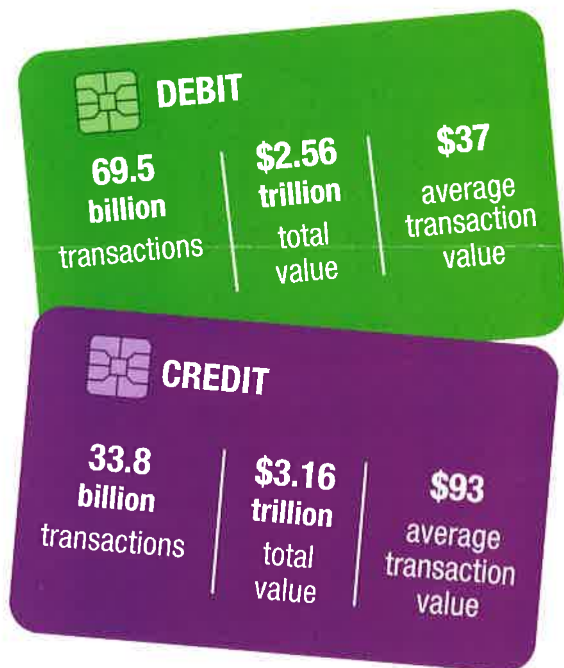
1) S&P Dow Jones Indices, 2015, 2017

Pick Your Plastic: Debit or Credit?

According to a Federal Reserve study, Americans use debit cards more often than credit cards, but the total value and the average value of credit card transactions are higher than those of debit card transactions (see chart).

This reflects fundamental differences. A debit card acts like a plastic check and draws directly from your checking account, whereas a credit card transaction is a loan that remains interest-free only if you pay your monthly bill on time. For this reason, people may use a debit card for regular expenses and a credit card for "extras." However, when deciding which card to use, you should be aware of other differences.

Card Transactions



Source: U.S. Federal Reserve, 2016
(2015 transactions, most recent data available)

Fraud protection. In general, you are liable for no more than $50 in fraudulent credit card charges. For debit cards, a $50 limit applies only if a lost card or PIN is reported within 48 hours. The limit is $500 if reported within 60 days, with unlimited liability after that. A credit card may be safer in higher-risk situations, such as when shopping online, when the card will leave your sight (as in a restaurant), or when you are concerned about a card reader. If you regularly use a debit card in these situations, you may want to maintain a lower checking balance and keep most of your funds in savings.

Merchant disputes. You can dispute a credit card charge before paying your bill and shouldn't have to pay it while the charge is under dispute. Disputing a debit card charge can be more difficult when the charge has been deducted from your account, and it may take some time before the funds are returned.

Rewards and extra benefits. Debit cards offer little or no additional benefits, while some credit cards offer cash-back rewards, and major cards typically include extra benefits such as travel insurance, extended warranties, and secondary collision and theft coverage for rental cars (up to policy limits). Of course, if you do not pay your credit card bill in full each month, the interest you pay can outweigh any financial rewards.

Credit history. Using a credit card can affect your credit score positively or negatively depending on how you use it. A debit card has no effect on your credit.

Considering the additional protections and benefits, a credit card may be a better choice in some situations — but only if you pay your monthly bill on time.

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Would you like to discuss the role of dividends in your portfolio? Call us for an appointment today.

Working toward a better financial future,