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Resolute Connections

In this month's newsletter, *The Investment Returns of Homes vs. Stocks,* sheds a little light on a topic we discuss often with clients – is a home a great investment compared to alternative investments. In *Look Less, Make More* the easiest route to improving your investment performance is discussed; hint it may also be the laziest route.

The Two Faces of Volatility summarizes some remarkable news outlined in a recent report by Fidelity Investments - how many millionaires there are in the US based on 401(k) balances. And *Taxing Weed* touches one of the hot topics of our times, legalized marijuana. It is also a polarizing one in the U.S., but surprise there one aspect of it that is attractive to all sides; the potential tax revenue.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

The Investment Returns of Homes vs. Stocks

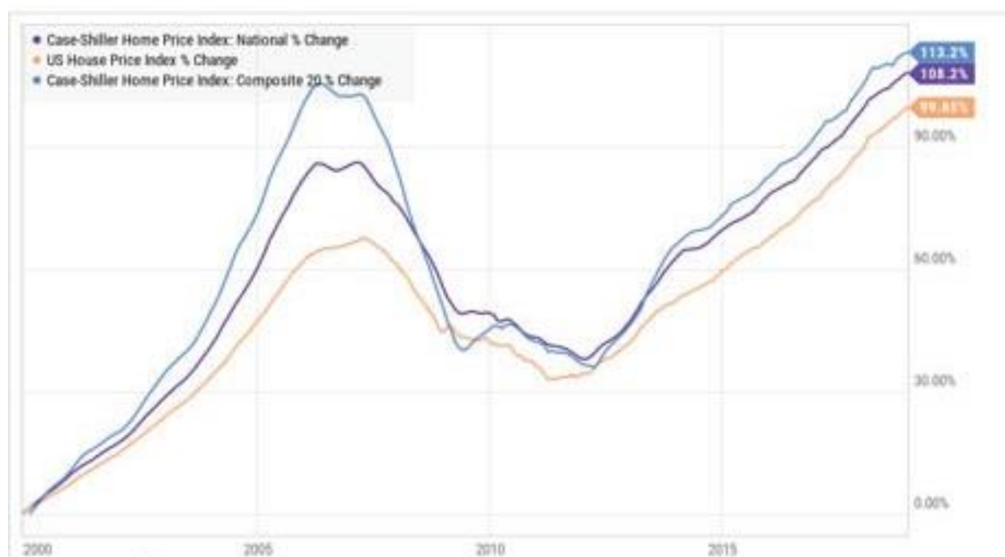
Your home is your best investment, right?

A few recent analyses suggest that this old chestnut may not apply any more—if it ever did. Researchers from the San Francisco Fed have recently concluded that from 1870 through 2015, worldwide returns on homes—that is, the average yearly home appreciation across all houses in the world—was 6.9% after inflation. The comparable yearly return for global stocks was 6.7%. Closer to home (so to speak),

U.S. stocks returned 8.5% a year over that time period, vs. 6.1% for houses. In America, houses appreciated a little less robustly than homes abroad, and stocks were much better investments than global ones.

Of course, it's hard to know what to make of this data, considering that the global numbers presumably include huts in rural India as well as palatial estates on the Riviera—and everything in between. In addition, there are significant costs to maintaining (and, often, improving) homes that aren't applicable to a buy-and-hold stock portfolio. On the other end of the argument, homes provide you with a place to live, which is not currently a feature of blue-chip stocks.

And there is evidence that homeownership today may not be the return-generator it once was. If you look at the chart, which begins in 2000 through roughly yesterday, you see that the first part of the century offered great returns, on average, to people who owned their homes—who then discovered that they were in the midst of a housing bubble that exploded sometime after 2007. The returns since have been roughly zero by three different measures, though home prices have recovered nicely since the bottom. Nevertheless, over that same time period, stocks have been the better investment.



What's the point here? Many people seem to think that, over time, their homes will always go up in value, generally faster than stocks. The recent housing bubble may have shaken that confidence, but the recovery might have lent it credence all over

again. The long-term data suggests that stock returns have been at least as robust as returns on housing, without all the upkeep and maintenance to worry about. Look at your home as a source of shelter, of comfort, perhaps of status, and an investment only secondarily.

Look Less, Make More

You're likely to read a lot of articles about how to be a better investor, and they will tout everything from watching complicated charts looking for patterns to more mainstream dollar-cost-averaging, to buying only the stocks of companies that you know.

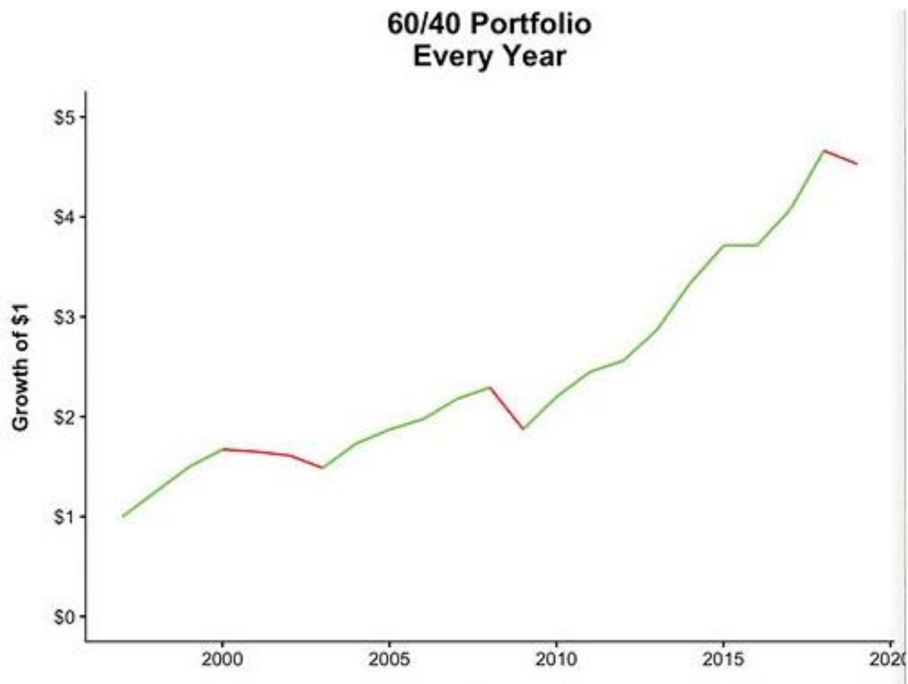
But surprisingly, the easiest route to improving your investment performance may also be the laziest.

A recent article notes that all of us are wired to experience the pain of loss more than we feel the joy of gain. Translated into investment behavior, that means that we have an innate instinct to stop the pain by selling out of a portfolio whenever it goes down—and that is usually a poor idea when the markets are generating normal volatility. Trying to time the market is a loser's game, even if it is driven by instinct rather than intent.

So the solution is…? The less you monitor (or watch) your portfolio's ups and downs, the fewer times you will experience the pain of (temporary) loss. The fewer times you will have an instinct to sell or change something, and the more likely you are to receive the benefits of the market's long-term growth in value.

Consider a couple of charts, showing periods when the market is down (in red) and when the market is rising (green). The first chart shows what that would look like if you checked every day—or if you watched financial news every day to see how the markets did. When you look at your portfolio every day, you will see red an average of 46% of the time, which means almost half the time you will feel an instinctive alarm and a desire to make a change.

The second chart shows the same ups in green and downs in red, but over periods of years instead of days. If you look at your portfolio only once a year, only 26% of the time will you see a downturn and feel that same self-destructive instinct.



This is not, obviously, a perfect solution; you will still experience times when the markets are down, when you're fighting the urge to make a change. But instincts are harder to control than habits. If you can make a habit of looking at your investment returns less often, your instincts won't have as great a chance to undermine your long-term results.

The Two Faces of Volatility

Buried in a recent report by Fidelity Investments was some remarkable news. Last summer, the mutual fund and retirement plan provider noted that there were more than a million people with more than $1 million in their 401(k) accounts. Then December hit, wiping out almost 20% of the value of the S&P 500 index, with many overseas markets suffering larger losses. The result: the number of 401(k) millionaires fell by 28% in the fourth quarter.

So, this is a great argument for avoiding stocks in the first place, right? Actually, according to an article that analyzed these results, the reverse is true. It is precisely the volatility of stocks that accounts for their higher returns—and the fact that there were so many millionaires in the first place. The market drop was perfectly normal, yet swings like these are what keep many people from trusting their retirement savings to stocks. Those brave souls who manage to ride out the downturns are rewarded with higher long-term returns.

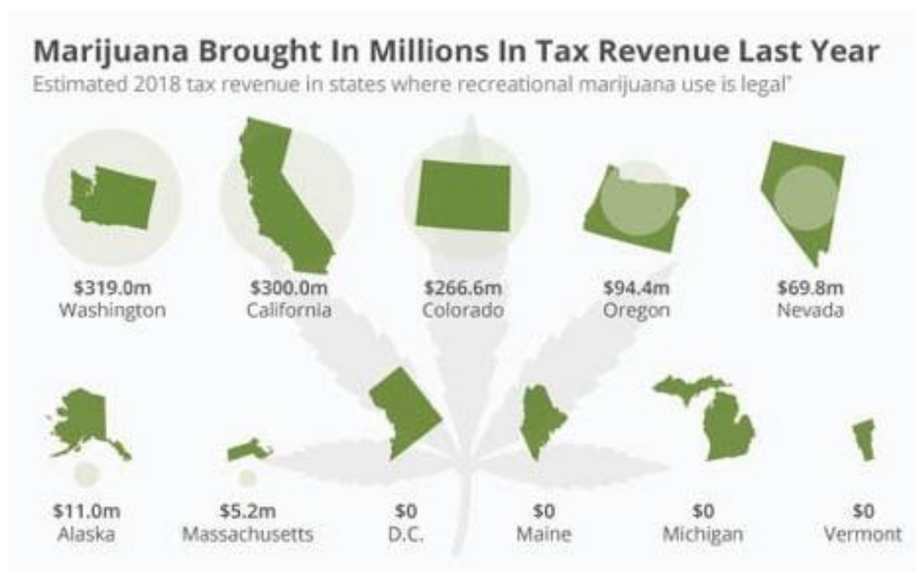
The analysis posits a world where stocks offer a placid low-risk, low-return pattern over time. The overall returns would be modest, because returns are a direct function of risk. Many people would never be able to achieve their retirement goals.

And anyway, people craving less risk know where to find it. We already have a Treasury bond market, which provides a safe, modest return with minimal risk and a very high expectation of delivering on the nominal returns promised. They are not risk-free; historically, the 10-year government bond market has experienced declines of as much as 5 percent. But chances are very few of those 401(k) millionaires were heavily invested in Treasuries during their accumulation periods.

Taxing Weed

Legalized marijuana is a polarizing topic in the U.S., but one aspect of it that is attractive to all sides is the potential tax revenue. But how much are we actually talking about.

A recent article in Forbes magazine noted that there are now ten states that have legalized pot sales, plus D.C., and seven of them currently tax and regulate revenue-producing stores. Those taxes typically total 10-37 percent more than local sales taxes, which makes legalizing marijuana really, really lucrative to state coffers. Last year, Washington took in an estimated $319 million, while California's revenues totaled roughly $300 million. Colorado collected $266 million. You can see on the chart that several states are too new to the marijuana marketplace, or don't access taxes on its sales.



For those who DO, where does the money go? Colorado has the longest history with legalized pot. Among other things, its weed revenues are going toward school construction, drug abuse programs and medical research. Aurora, CO used $900,000 to open up a space for the homeless, plus access to basic services. Pueblo, CO used its marijuana tax revenue to fund scholarships for underprivileged students.

But the social costs…? There is no evidence yet of rising crime rates in Washington, California, Colorado, Oregon, Nevada, Alaska, Massachusetts, Maine, Michigan or Vermont; however, the instances of impaired driving have increased in several of the above states. So, while politicians salivate over the potential increase in state revenue if pot is legalized, perhaps they ought to wait to see what the societal costs are in the states leading the charge to fill the state coffers.

Source:
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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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