NORTHSTAR
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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

"It's tough to make predictions, especially about the future."

—Yogi Berra

IN THIS ISSUE:

REAL ESTATE AND FINANCES FOR MILLENNIALS

So that's why they're called millennials: At the rate they are saving, it'll take a thousand years for them to have enough to buy a house.

According to a recent report from Clever Real Estate, about a quarter of millennials who said they want to buy a home have less than $1,000 saved up. Nearly 60% have no more than $10,000 saved up. About 25% are $10,000 or more in debt.[1]

As us "slightly-older-than-millennials" know, it can be a pretty pricey proposition to get yourself into a first home. It's not just the down payment. There are closing costs, furnishings, renovations in the 100% likely event the home you find isn't perfect, unexpected repairs, and, well, a few hundred other things.

Homeownership is important to millennials. A majority would consider delaying marriage or children to achieve the goal, according to the report. But even that may not be enough. On a modest $200,000 home (the average amount millennials plan to spend), a 20% down payment plus other known costs and a fair allowance for unknowns could easily push the money needed upfront into the high five figures. For a 30-year-old with $1,000 in the bank and a bunch of student debt, that could be a tough obstacle to overcome.

If you're the parent of a millennial, some of that burden may be heading your way. Millennials are three times more likely than older generations to get help for a down payment from a family member. The report didn't say how often the family member is dear old Uncle Frank and how often it's you. Spoiler alert: It's you.

While the desire for homeownership remains strong, it is no surprise that fewer millennials own homes. According to the Urban Institute, homeownership is at only 37% among millennials compared with 45% for Gen X and baby boomers when they were the same age.[2]

But for you parents, millennials aren't wholly relying on Mom and Dad. Family money is expected to account for $10,000. A big majority (70%) of millennials will lower their down payment costs by putting less than 20% down. About 30% will work an extra job to save more. Because of their higher willingness to use social media for their house hunting, they are 20% less likely to use a real estate agent. And about 25% plan to spend less than $100,000 on their home.

Unfortunately, a lot of these decisions could have a long-lasting impact on their financial status:

- Putting less than 20% down will require expensive mortgage insurance. Also, less money down puts them at greater risk of being "upside down" if home values fall, which could impact mobility later.
- Going without a real estate agent could cost them more if they aren't skilled negotiators and could leave them blind to a hundred other pitfalls and land mines in the home-buying process. If the seller is using one, the buyer is at a far greater disadvantage.
- A very cheap home comes with its wide assortment of issues, from unsafe neighborhoods to high repair

costs (why is that house so cheap?) to low resale value. It will also likely be on the small side, which will make for difficulty when starting a family.

Real estate professionals estimate that "associated" homeownership costs, like repair and maintenance, averages about $1,100 per month. To the extent millennials stretch every dollar to close on a home and leave nothing behind for the unexpected broken water heater or leaky roof, those costs could end up on credit cards, at a high rate of interest.

Conclusion: The high desire among millennials to realize the American Dream of homeownership is admirable. But it's important to have a solid financial plan, both to get to the closing table and to thrive in the years beyond. If you or a millennial you love are dealing with this decision, give your favorite advisor a call!

—Steve Tepper

[1] "2020 Millennial Home Buyer Report" by Francesca Ortegren, Clever Real Estate, January 6, 2020.

[2] "Urban Wire: Housing and Housing Finance," the blog of the Urban Institute, by Jung Hyun Choi, Jun Zhu and Laurie Goodman, July 11, 2018.

Other source: "Millennial Home Buyers Need Financial Advice" by Karen DeMasters, *Financial Advisor* magazine, January 21, 2020.

HINDSIGHT IS 20/20. FORESIGHT ISN'T

The year 2019 served up many examples of the unpredictability of markets.

Interest rates that U.S. policy makers expected to rise fell instead. American consumers' confidence weakened as the year began,[1] and news headlines broadcast fears of an economic slowdown. But investors who moved onto the sidelines may have missed the gains in the U.S. stock market. As of the end of October, the S&P 500 was up more than 20% for the year on a total-return basis. That put it on course for the best showing since 2013 were the gain to hold through December.

Outside the U.S., Greece—the site of an economic crisis so dire some expected the country to abandon the euro earlier this decade, and a country whose equity market lost more than a third of its value last year—had one of the most robust stock market performances among emerging economies in 2019. On top of that, Greece issued bonds at a negative nominal yield, which means investors paid for the privilege of lending the government cash.

Taken as a whole, it's a reminder that the prediction game can be a losing one for investors.

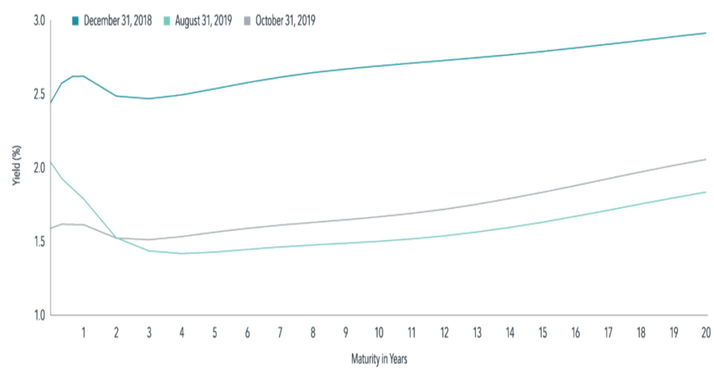
Up or Down?

A closer look at interest rates and the bond market shows just how unpredictable asset performance can be. Going into 2019, Federal Reserve officials expected economic conditions to support raising a key interest rate benchmark twice. Instead, policy makers lowered it three times.

In the market for U.S. Treasuries—where market participants set interest rates—the yield curve that tracks Treasuries inverted for the first time in more than 10 years, as seen in **Exhibit 1**. Some long-term yields fell below some short-term yields over the summer. What's more, yields on medium- and long-term bonds were at historically low levels at the start of the year, but they fell even lower by the end of October. Investors who made moves based on the expectation that yields would rise in 2019 may have been disappointed in how events ultimately transpired.

Exhibit 1. Shifting Curves

Yields on U.S. Treasuries of various maturities since the end of 2018



Trading Places

Events weren't any easier to anticipate in the global equity markets, where no evident link appears between markets that performed well last year and those that have excelled this year, as **Exhibit 2** shows.

Among the 23 developed market countries,[2] only one country was a Top 5 performer for 2018 and 2019: the U.S. The strongest-performing market in 2018—Finland—ranked 22nd in 2019 through the end of October. Among emerging markets, Greece swung from a 37% decline in 2018 to a 37% advance in 2019 through the end of October.

Exhibit 2. Changes in the Ranks

Performance of equity markets in 23 developed and 24 emerging economies

Developed Economies

2018		2019 YTD	
Finland	−3.43%	Switzerland	25.19%
New Zealand	−3.97%	Netherlands	24.45%
USA	−5.04%	Ireland	24.37%
Israel	−5.48%	Italy	23.22%
Hong Kong	−7.83%	USA	22.67%
Norway	−8.63%	Canada	21.30%
Switzerland	−9.08%	France	20.05%
Singapore	−9.41%	New Zealand	20.02%
Portugal	−11.09%	Australia	19.92%
Australia	−11.99%	Portugal	19.08%
France	−12.76%	Denmark	17.74%
Japan	−12.88%	Japan	16.51%
Netherlands	−13.11%	Germany	16.40%
Sweden	−13.68%	Belgium	15.61%
United Kingdom	−14.15%	Sweden	14.65%
Denmark	−15.43%	United Kingdom	13.18%
Spain	−16.19%	Austria	13.08%
Canada	−17.20%	Singapore	12.84%
Italy	−17.75%	Spain	7.99%
Germany	−22.17%	Hong Kong	7.67%
Ireland	−25.31%	Israel	6.15%
Belgium	−26.93%	Finland	6.11%
Austria	−27.44%	Norway	5.13%

Emerging Economies

2018		2019 YTD	
Qatar	29.84%	Russia	40.37%
Peru	1.56%	Egypt	39.29%
Russia	−0.39%	Greece	36.95%
Brazil	−0.49%	Taiwan	25.04%
Czech Republic	−4.45%	Colombia	22.67%
Thailand	−5.53%	Brazil	17.61%
Malaysia	−6.03%	Philippines	12.45%
Hungary	−6.12%	China	11.97%
India	−7.30%	Thailand	8.74%
UAE	−7.74%	Mexico	8.56%
Taiwan	−8.94%	Hungary	7.49%
Indonesia	−9.21%	India	6.56%
Colombia	−11.53%	UAE	5.57%
Poland	−12.87%	Indonesia	4.84%
Egypt	−14.00%	Korea	3.76%
Mexico	−15.53%	Peru	2.25%
Philippines	−16.52%	Turkey	1.96%
China	−18.88%	South Africa	0.35%
Chile	−19.65%	Czech Republic	−1.11%
Korea	−20.94%	Malaysia	−3.84%
South Africa	−24.76%	Poland	−4.13%
Pakistan	−34.79%	Qatar	−4.95%
Greece	−36.84%	Pakistan	−7.51%
Turkey	−41.40%	Chile	−15.27%

Perennial Wisdom

History has shown there's no compelling or dependable way to forecast stock and bond movements, and 2019 was a case in point. Neither the mainstream prognostications nor the hindsight of recent strong performance predicted outcomes in 2019.

Rather than basing investment decisions on predictions of which way debt or equity markets are headed, a wiser strategy may be to hold a range of investments that focus on systematic and robust drivers of potential returns. Investors who were broadly diversified across asset classes and around the globe were in a position to potentially enjoy the returns that the markets delivered thus far in 2019. Last year, this year, next year—that approach is a timeless one.

—From Dimensional Fund Advisors

Footnotes

[1] Based on readings from the Conference Board Consumer Confidence Survey and the University of Michigan Index of Consumer Sentiment.

[2] Markets designated as developed or emerging by MSCI.

Disclosures

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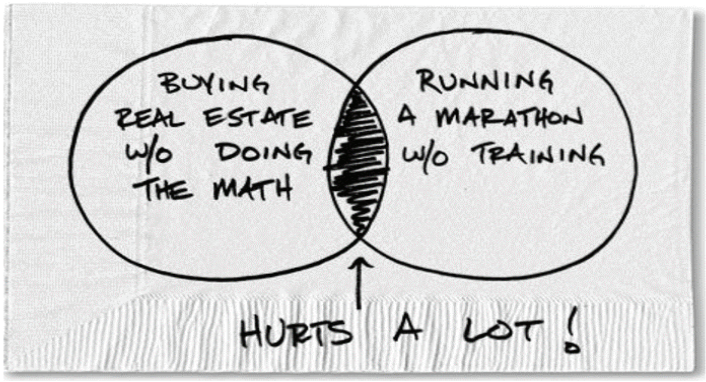
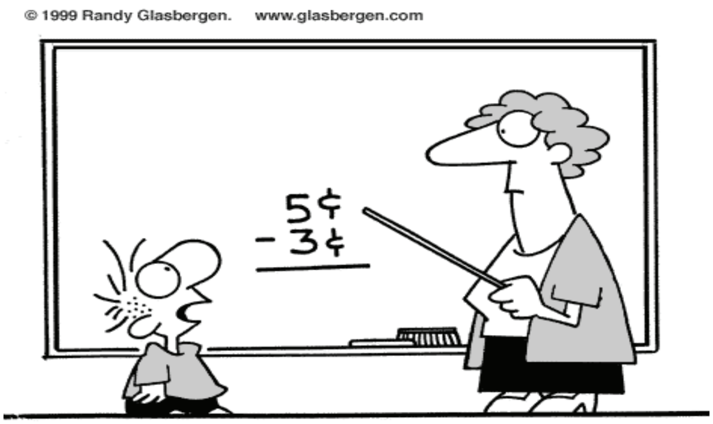
STEVE'S PEARLS OF WISDOM

The January Indicator: History tells us the best strategy when the market is down in January is to stay invested, and the best strategy when the market is up in January is to stay invested. Sure makes my job easier!

FROM CARL RICHARDS' NAPKIN BLOG



FINAL THOUGHT



"Thanks, but I'd rather get my financial advice off the Internet."