

July 2016
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Special Interest
Articles:

After Brexit
(Front page)

**Vacation or
Vacation
Home?**
(Front page)

"America was
not built on fear.
America was
built on courage,
on imagination
and an
unbeatable
determination to
do the job at
hand"

-Harry S.
Truman: 33rd
President of the
U.S.

After Brexit

By Christopher W. Beale, CFP®

Chris Lee and I sent out an email on Friday June 24th, the day after the historic vote in the United Kingdom where the British people voted to leave the European Union. We told you to be prepared for a negative market reaction to the vote in world markets and increased market volatility in the following months. While the Dow Jones was down by more than 600 points on the first trading date after the vote, many would be surprised to know that on the first day of July, the Dow Jones, S&P 500 and NASDAQ index were all higher than they were before the Brexit vote. This strongly suggests to Chris and I, that once again people who panic and let their emotions rule their investment decisions are more likely to lose money by selling low and buying back at higher prices. For those who understand that short-term volatility is the price to be paid for higher, longer term returns, they will be better positioned to achieve their financial goals.

I don't want to imply that Brexit is a "non-event." Quite the opposite; Chris and I know that many questions remain not just for the United Kingdom (UK) and the European Union (EU), but also for the USA and around the world. Brexit, along with future acts of terrorism, the seemingly endless Mid-East saga, the Zika epidemic, rising oil prices, declining oil prices or any other crisis du jour that our 24/7 news media bombards us with will certainly have an influence on us as investment advisors and how we consequently manage your money.

Of course the biggest question is: Will the EU break up? After all, the UK is the second largest economy in the EU. There are already renewed talks of a Grexit (Greece departing from the EU) other clever names have already popped up too. How about "De Portugal", the "Czechout" and the "Big Finnish." We can even bring the issue closer to home with rumors of Texas leaving the United States.

(Continued on page 2)

Vacation or Vacation Home?

By Christopher M. Lee, CFP®

Hopefully you are enjoying your summer, whether it is at the beach, in the mountains, in your backyard, or even sitting poolside enjoying your favorite beverage. This time of year makes it easy to fantasize about what retirement may look like – or even if you are retired – what life can look like away from "home".

Vacations are great – everyone needs down time to recharge their batteries, reflect on the past, and look ahead to the future. Some people prefer to travel, while others would like a "home away from home". At what point should you consider buying that vacation home or second home? In part of that decision making process, there are some questions you need to answer first:

Where's a good place to buy? Take a look at market demographics, re-sale prices, weather, proximity to grocery/shopping/medical centers, traffic, etc.

(Continued on page 2)

After Brexit

(Continued from page 1)

So is Britain the first domino? There are active political movements in the EU and other places in the world calling for more nationalistic and protectionist policies. If nothing else, the Brexit vote should serve as a wake-up call that the EU and other countries need to make structural changes and reforms. The EU has been struggling economically with issues such as: the Syrian refugee crisis, the Greek debt crisis, the potential Italian banking crisis, political and economic issues in Finland and Poland, AND in general the large wealth disparity between countries in northern Europe versus Southern Europe. This last issue should sound familiar to all of us in the United States who follow both Economics and Politics.

With the vote as close as it was (51.9% to leave vs. 48.1% to stay in the EU) there is already pushback against leaving. Scotland and Northern Ireland have made their desire to remain part of the EU known. Leaders of the "leave" movement in Britain are already walking back or renegeing on promises made during their campaign.

In the end, both the UK and the EU may be fine. Britain is Germany's third largest trading partner and France's fifth largest. It doesn't make sense for those countries to stop trading with Britain or to impose large tariffs on British imports. More interesting to me, would be if the EU does decide their policies need to be reformed and they change to a less-stifling regulatory environment. Such changes could promote economic growth for both the UK and EU.

Our international investments are down now but eventually, I expect them to rescue us when the American bull market expires. This is how proper asset allocation should work. When one asset class is down, another should be up. I wish I knew with certainty when that will be. Until my crystal ball becomes clear, we will remain vigilant and continue to allocate your portfolio under different asset classes for your long term benefit.

Vacation or Vacation Home?

(Continued from page 1)

How will you get there? According to the National Association of Realtors (NAR) ¹, more than 80 percent of vacation-home buyers choose locations within driving distance of where they live, with about half of all owners opting for properties within 50 miles of their primary residence. Proximity to your home is especially important if you plan to visit the property frequently. Much as you loved your trip to Fiji, you're not likely to fly to the South Pacific for a three-day weekend.

Will you need rental income? NAR statistics show that most owners of vacation homes do not rent out their properties, but if you can't quite make the mortgage payments without some rental income, it's best to choose a popular destination where demand for short-term lodging is high. Experts say the most desirable spots are near oceans, lakes or rivers, or at mountain recreation areas.

Will the location suit your future lifestyle? Planning for long-term enjoyment can mean buying a place that's big enough for a growing family, or choosing an area with a range of recreational opportunities to accommodate evolving interests. Mountain biking may be your current obsession, but what happens if you decide to take up golf or fly-fishing? And if you're buying a home for future retirement, be sure to look for the kind of structure and location where seniors can live comfortably. Thirty years from now, will you want to climb stairs to reach the master bedroom, or drive a rutted dirt road to your rustic cabin in the woods?

"We hold these truths to be self-evident: that all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty and the pursuit of happiness."

-Thomas Jefferson:
American founding father and principal author of The Declaration of Independence.

Vacation or Vacation Home?

(Continued from page 2)

"In the truest sense, freedom cannot be bestowed; it must be achieved."

-Franklin D. Roosevelt:
American statesman and political leader.
32nd president of the U.S.

Higher interest rates used to be the rule for mortgages on second homes because lenders considered them a greater risk than loans on primary residences. But these days you may be able to find a second-home mortgage at first-home rates. (Exception: If you'll be counting on rent receipts to help pay the mortgage, the rates will probably be higher.) The bad news is that burdened though you may be with two mortgages (or three, counting the home-equity line), lenders will expect you to stay within the debt-to-income limits dictated by Fannie Mae and Freddie Mac. Your total debt payments, including all mortgages, can't exceed 36% of your gross income. The good news is that if you plan to rent the place, you can count some of that assumed rent as income when calculating the ratio. The lender will tell you what an acceptable assumption is.

About 25% of vacation homes are rented to other people for part of the year, and the appeal of different kinds of properties vary with the seasons. For tax purposes, vacation homes are subject to what's called the 14-day or 10% rule. You can rent your place for up to 14 days a year and pocket the rental income without having to declare it on your tax return. If you rent out the house for more than 14 days a year, you are considered a landlord by the Internal Revenue Service and you must report the income.

In addition to any possible mortgage payment, you will need to estimate all of the carrying costs to own the property including (but not limited to): taxes, association fees, utility costs (phone, internet, electricity, water, sewer, etc.). You must also budget in normal costs to maintain the house for repairs and upgrades. Try to plan for the unexpected – what if you need a new roof, pipes bursting/clogging, windows, electrical, driveway, and one-time assessments if you are in an association, to name a few.

After you have worked out the financials, draft up a pro's versus con's list. Think about the psychological effects – will you worry when no one is there as to what is going on? What if there is a hurricane? What if renters (hopefully not your friends) trash the place?

In some instances, we have added up the costs for clients and it is cheaper for them to take a 2-3 week vacation annually (traveling all over the world) rather than pay for the cost of a vacation home. With that being said, there is also the psychological aspect of knowing that you own a vacation home to get to at any moment – and be there at retirement time! It is easy to make decisions based on emotion, but rather than regret them later, please use us as a sounding board and outside professional opinion. Until then – enjoy your summer – wherever it may take you!

Source:

¹ <http://www.realtor.org/field-guides/field-guide-to-vacation-resort-and-second-homes>

NECFA NEWS....

We have a new face at New England Capital! Matt Sczurek recently joined us and is a great addition to our team! He will be working as a Para-planner, assisting us in meetings and also with client service. Please make sure you say “Hi” to him when you are in the office or call.

IMPORTANT DISCLOSURE INFORMATION

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