

Planning News



A Quarterly Newsletter | May | 2021

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We hope you enjoy this issue of Planning News and its in depth and informative article content.

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Growing Interest in Socially Responsible Investing

U.S. assets invested in socially responsible strategies topped \$17.1 trillion at the start of 2020, up 42% from two years earlier. Sustainable, responsible, and impact (SRI) investments now account for nearly one-third of all professionally managed U.S. assets.¹ This upward trend suggests that many people want their investment dollars to pursue a financial return and make a positive impact on the world.

There is also wider recognition that good corporate citizenship can benefit the bottom line. A favorable public image might increase sales and brand value, and conservation efforts can help reduce costs, improving profit margins. Some harmful business practices are now viewed as reputational or financial risks that could damage a company's longer-term prospects.

ESG Explained

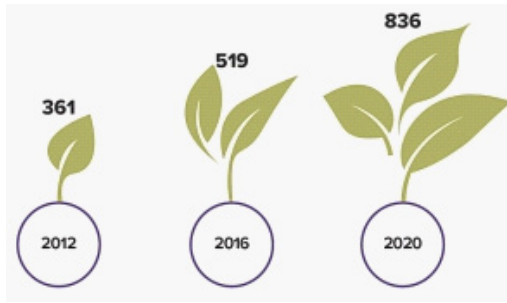
SRI strategies incorporate environmental, social, and governance (ESG) considerations into investment decisions in a variety of ways. ESG data for publicly traded companies is often provided alongside traditional financial data by investment research and rating services. Some examples of prominent ESG issues include climate change, sustainable natural resources, labor and equal employment opportunity, human rights, executive pay, and board diversity. A simple exclusionary approach (also called negative screening) allows investors to steer clear of companies and industries that profit from products or activities they don't wish to finance. These choices can vary widely depending on the individual investor's ethics, philosophies, and religious beliefs, but alcohol, tobacco, gambling, and weapons are some typical exclusions. Similarly, positive screening can help investors identify companies with stronger ESG track records and/or policies and practices that they support. Impact investing is a less common strategy that directly targets specific environmental or social problems in order to achieve measurable outcomes. There are also varieties of integrative approaches that combine robust ESG data with traditional financial analysis. These tend to be proactive and comprehensive, so they are less likely to avoid entire industries. Instead, analysts and portfolio managers may compare industry peers to determine which companies have taken bigger steps to meet environmental and social challenges, potentially gaining a competitive advantage.

Investment Opportunities

The range of investment vehicles used in SRI strategies includes stocks, mutual funds, exchange-traded funds (ETFs), and, to a lesser extent, fixed-income assets. Altogether, there are more than 800 different investment funds that incorporate ESG factors, and the field is expanding rapidly.²

Many SRI funds are broad based and diversified, some are actively managed, and others track a particular index with its own collection of SRI stocks. ESG criteria can vary greatly from one SRI fund to another. Specialty funds, however, may focus on a narrower theme such as clean energy; they can be more volatile and carry additional risks that may not be suitable for all investors.

Number of ESG Investment Funds



Source: US SIF Foundation, 2020

Socially responsible investing may allow you to further both your own economic interests and a cause that matters to you. Moreover, recent research suggests you should not have to accept subpar returns in order to support your beliefs.³

As with any portfolio, it's important to pay attention to the composition and level of risk and to monitor investment performance. Be prepared to make adjustments if any of your holdings do not continue to meet your financial needs and reflect your values.

The return and principal value of SRI stocks and funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. There is no guarantee that an SRI fund will achieve its objectives. Diversification does not guarantee a profit or protect against investment loss.

*Investment funds 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.

1-2) US SIF Foundation, 2020

3) The Wall Street Journal, March 16, 2020

Home-Sweet-Home Equity

Buying a home is a long-term commitment, so it's not surprising that older Americans are much more likely than younger people to own their homes "free and clear" (see chart). If you have paid off your mortgage or anticipate doing so by the time you retire, congratulations! Owning your home outright can help provide financial flexibility and stability during your retirement years. Even if you still make mortgage payments, the equity in your home is a valuable asset. And current low interest rates might give you an opportunity to pay off your home more quickly. Here are some ideas to consider.

Enjoy Lower Expenses

If you are happy with your home and don't need to tap the equity, living free of a monthly mortgage could make a big difference in stretching your retirement dollars. It's almost as if you had saved enough extra to provide a monthly income equal to your mortgage.

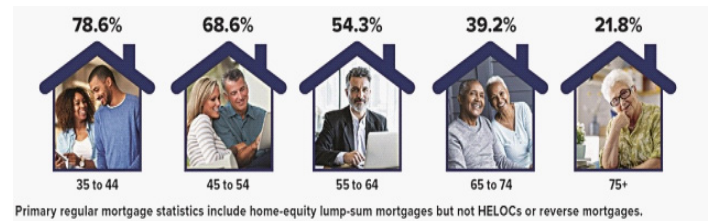
You still have to pay property taxes and homeowners insurance, but these expenses are typically smaller than a mortgage payment.

Consider Downsizing

If you sell your home and purchase another one outright with cash to spare, the additional funds could boost your savings and provide additional income. On the other hand, if you take out a new mortgage, you may set yourself back financially. Keep in mind that condominiums, retirement communities, and other planned communities typically have monthly homeowners association dues. On the plus side, these dues generally pay for maintenance services and amenities that could make retirement more enjoyable.

Paying Off the Mortgage

The percentage of homeowners with a primary regular mortgage declines steadily with age.



Primary regular mortgage statistics include home-equity lump-sum mortgages but not HELOCs or reverse mortgages.

Source: 2019 American Housing Survey, U.S. Census Bureau, 2020

Borrow on Equity

If you stay in your home and want money for a specific purpose, such as remodeling the kitchen or fixing the roof, you might take out a home-equity loan. If instead you'll need to access funds over several years, such as to pay for college or medical expenses, you may prefer a home-equity line of credit (HELOC). Home-equity financing typically has favorable interest rates because your home secures the loan. However, you are taking on another monthly payment, and the lender can foreclose on your home if you fail to repay the loan. In addition, you may have to pay closing costs and other fees to obtain the loan. Interest on home-equity loans and HELOCs is typically tax deductible if the proceeds are used to buy, build, or substantially improve your main home, but is not tax deductible if the proceeds are used for other expenses.

Refinance

With mortgage rates near historic lows, you might consider refinancing your home at a lower interest rate. Refinancing may allow you to take some of the equity out as part of the loan, but of course that increases the amount you borrow. While a refi loan may have a lower interest rate than a home-equity loan or HELOC, it might have higher costs that could take some time to recoup. And a new loan comes with a new amortization schedule, so even with lower rates, a larger portion of your payment may be applied to interest in the early years of the loan. Refinancing might be a wise move if the lower rate enables you to pay off a new mortgage faster than your current mortgage.

Money Market Funds in a Low Rate Environment

After pushing interest rates gradually upward for three years, the Federal Reserve dropped the benchmark federal funds rate to near zero (0%–0.25%) in March 2020 to help mitigate the economic damage caused by COVID-19.¹ The funds rate affects many short-term interest rates, including the rates on money market mutual funds, which were already low to begin with. The average monthly yield on 30-day taxable money market funds dropped steadily after the Fed’s move and was down to 0.03% by the end of 2020, equivalent to an annual percentage rate of about 0.36%.² Considering the rock-bottom rates on some short-term investments, this is higher than might be expected but well below the rate of inflation.³ Even so, investors held about \$4.3 trillion in money market funds.⁴ What’s the appeal with such a low return? Stability and liquidity.

Cash Alternatives

Money market funds are mutual funds that invest in cash alternatives, usually short-term debt. They seek to preserve a stable value of \$1 per share and can generally be liquidated fairly easily. Money market funds are typically used as the “sweep account” for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it’s not unusual to see large shifts into money market funds as investors pull out of riskier investments and wait for an opportunity to reinvest.

Short Term vs. Long Term

Money market funds can also be useful to keep emergency funds or other funds that might be needed quickly, such as a down payment on a home. If you are retired or near retirement, it might make sense to use money market funds for near-term expenses and/or to hold funds in a traditional IRA for required minimum distributions, so you do not have to sell more volatile assets. For a long-term investing strategy, however, money market funds are a questionable choice. You might keep some assets in these funds to balance riskier investments, but low yields over time can expose your assets to inflation risk — the potential loss of purchasing power — along with the lost opportunity to pursue growth through other investments. This could change if interest rates rise, but the Fed projects that the federal funds rate will remain in the 0% to 0.25% range through the end of 2023.⁵

Source: Refinitiv, 2021, 30-Day Money Market Index — All Taxable, for the period 12/31/1999 to 12/31/2020. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

* Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a fund.

* Mutual funds 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, 5) Federal Reserve, 2020

2) Refinitiv, 30-Day Money Market Index — All Taxable, for the period 12/31/2019 to 12/31/2020

3) U.S. Bureau of Labor Statistics, 2021

4) Investment Company Institute, 2021 (data as of 12/29/2020)

Annual Returns on Money Market Mutual Funds

