

The Worst Performing Investment in America

There is a lot of discussion in the media, and among financial experts in regarding the best investment in the market. In these volatile and scary times, the much-debated question is “where is the safest place to put my money?” With that question, consider what we are really after. Our wants and desires are fairly simple. We want something that will perform impervious to market conditions. We want our investment to provide some sort of predictable return. We want to be able to have access to it if necessary, in other words we want some degree of liquidity. Our main criterion is possibly the most important; at a minimum we just want to be able to keep the money we put in.

It doesn't seem like a lot to ask right? All we really want is the three sensible elements of any investment: safety, liquidity, and rate of return. Yet, 67% of us, over 200,000,000 Americans are putting money in the type of investment that is the antithesis of everything we are seeking based on our main criteria, and they do it every month. Want to know what it is?

Let me list the features of this particular, and very popular, type of investment.

1. You are required to make an initial contribution anywhere from 2 to 9 percent of your total long-term investment.
2. You have a limited number of options, but ultimately retain the ability to choose the amount of your monthly contribution. Once you have elected your contribution amount you are locked in.
3. You have the freedom to contribute **more** than the elected monthly minimum on a monthly basis, yet you are **never** allowed to contribute **less** than the monthly minimum, even in the case of job loss or medical emergencies.
4. If you do elect to pay less than the minimum contribution in any given month, you risk loss of your entire contribution to-date.
5. In most cases, approximately \$0.95 of every dollar contributed in the first five years, funds the investment company directly, leaving only \$0.05 of every dollar going towards your principle. With a 30-year investment, only 46% of your total contribution is actually yours to keep.
6. You have no liquidity, your money is tied up and unavailable, with the exception of certain loan provisions that give you access to the money; but only give you access to a small portion of it, and you must meet rigorous standards for the investment company to even consider the loan.
7. The money in the account is at the mercy of the market, and your principle is not guaranteed.
8. Every contribution you make puts your principle at greater risk, yet it further secures the investment company's position.
9. The money in the account, or your principle, will earn somewhere between 0% and -3.8% for the lifetime of the investment.
10. Once you have fully funded the investment, you are no longer allowed to contribute any more. The fully funded investment pays no dividend, and no income of any kind.
11. You will be required to pay tax on your fully funded investment for the rest of your life, even though the investment provides no income or dividend.

Are you excited yet? What do you think this investment is? Most people feel that we must be discussing the 401k or an IRA. The fact of the matter is, while the 401k and the IRA have many of the same rigid features listed above, and while they may have no guarantee of keeping principle, and while they may also be dependent on the mercy of the market, the 401k and the



IRA are not the topic of discussion. The investment that hundreds of millions of Americans are unwisely investing in on a monthly basis is quite simply . . .

PAYING OFF THE MORTGAGE ON YOUR PRIMARY RESIDENCE . . . YOUR HOME

We are willing to mortgage our lives for a sense of security, believing that the equity in our home will somehow provide the retirement and security we seek our whole lives to obtain. We work a lifetime to own a home “free and clear,” only to realize we have no way to retire once we reach retirement age. Our “free and clear” home no longer feels like an asset at this point, it feels like a consolation prize. To bring this point home allow us to take the same 11 features of the investment described above and talk about them in terms of your home.

1. You are required to make an initial contribution anywhere from 2 to 9% of your total long-term investment. (This is referring to your initial down payment of anywhere from 3.5% to 20% of the purchase price, which at the end of a 30 year note will equate approximately 2-9% of the total investment over the lifetime of the loan.)
2. You have a limited number of options, but ultimately retain the ability to choose the amount of your monthly contribution. Once you have elected your contribution amount you are locked in. (This is referring to you having the ability to shop around for the best interest rate on your mortgage, as well as the type of loan you want to accept.)
3. You have the freedom to contribute **more** than the elected monthly minimum on a monthly basis, yet you are **never** allowed to contribute **less** than the monthly minimum, even in the case of job loss or medical emergencies. (You are always welcome to pay more than your monthly payment, but if you ever pay less, or don't pay at all, you could be considered in default and the foreclosure process will begin.)
4. If you do elect to pay less than the minimum contribution in any given month, you risk loss of your entire contribution to-date. (If your home slips into foreclosure, you will lose all of your principle as well as all of the interest you've paid up to that point.)
5. In most cases, approximately \$0.95 of every dollar contributed in the first five years funds the investment company directly, leaving only \$0.05 of every dollar going towards your principle. With a 30-year investment, only 46% of your total contribution is actually yours to keep. (With a typical 30-year amortization schedule, you find that on average, only 5% of your monthly payment is paying down your principle balance, while the rest is devoted to interest. As your amortization schedule matures, you will begin to contribute more to principle and less to interest. However, on a \$225,000 loan amount, with a 6% interest rate, your fully amortized payment would be around \$1350 not including taxes and insurance. If you make that payment for 360 months, or 30 years, the total amount you will have paid over the course of the loan is \$486,000, hence only 46% on your total dollars paid out, ever went back to paying down principle.)
6. You have no liquidity, your money is tied up and unavailable, with the exception of certain loan provisions that give you access to the money, but only give you access to a small portion of it, and you must meet rigorous standards for the investment company to even consider the loan. (Money in your home equity is tied up and not accessible. You have zero liquidity. The loan provisions referred to would be that of a refinance or Home Equity Line of Credit, but those require you passing all the rigorous qualifications for the bank to give you more money.)
7. The money in the account is at the mercy of the market, and your principle is not guaranteed. (You have no floor for what your home value could become. This means that you could owe significantly more on your home than what it is even worth.)



8. Every contribution you make puts your principle at greater risk, yet it further secures the investment company's position. (This concept is simple, when you pay your loan down; it lowers the loan-to-value on the home, which means the bank's investment in you is even more secure than it was. Homes with a low loan-to-value are the easiest and quickest to foreclose on if you ever missed a payment, hence your principle is at greater risk.)
9. The money in the account, or your principle, will earn somewhere between 0% and -3.8%. (The actual equity in your home earns you nothing. Those dollars never create more dollars. Equity is conceptual until you access it through some type of HELOC, refinance, or sale, and the equity becomes actual physical dollars. Not accessing the equity in your home is the equivalent to having tens of thousands of idle dollars sitting in a bank account of bricks and you are unable to access those dollars. If you were to put money in a bank account that is not an interest bearing savings or checking account, and does not give you access to your money, it would be like stashing the money in a safe in your home but you don't have the combination to the safe. Money sitting like that is subject to inflation, and the 75-year average on inflation, according to the United States Government is 3.816%. Your home may increase in value, but that is the market growing your money for you as opposed to a guaranteed increase in principle like you are given with an interest bearing savings account.)
10. Once you have fully funded the investment, you are no longer allowed to contribute any more, and the fully funded investment pays no dividend, and no income of any kind. (Once your home is paid off you are no longer allowed to put any more dollars into your mortgage. Once your home is paid off it creates no income or dividend. Even if you were to take the equivalent of the amount of dollars you paid every month for your mortgage, and began allocating it to some sort of an investment account, it would take you years before those dollars could start to provide some sort of retirement for you.)
11. You will be required to pay tax on your fully funded investment for the rest of your life, even though the investment provides no income or dividend. (Once you own your home "free and clear," you are only clear of the mortgage payment, but the home in no way becomes free. You are required to continue paying property tax for as long as you own that property.)

Do not misunderstand. We are not advocating using your home as a large ATM machine, or using the equity in your home for debt consolidation or re-structuring through a mortgage refinance. Practices like those add to debt proliferation and can ultimately result in bankruptcy for many Americans.

In fact, paying off your home is a noble and wise thing to do, but it is only wise if you have adequately organized your financial house to allow for a retirement, through the creation of passive income. If you spend your adult years mortgaging your life to chase that financial unicorn called retirement, and you think that paying off your home **FIRST**, or that never tapping into your equity, is the answer, then please reflect long and hard on the actual, practical, and very real side of what many Americans think is our best investment . . . "our home. I am suggesting the need for a drastic paradigm shift for Americans who have been raised learning "conservative" financial principles like putting money into a 401k or an IRA, or paying off their home. The question however, becomes "How is that working for most Americans?" How has it worked for you?



It has been a widely known, and well-chronicled fact that 97% of all Americans are not financially independent by age 65. We would make the argument that paying off your home **first**, and tying up hundreds of thousands of dollars into an investment with the drawbacks previously discussed in this article, is in fact the worst investment in America. Ask yourself if paying off your home **first** meets the three most basic and sensible criteria for investing your dollars. 1) Is there safety; do you get to keep your dollars? 2) Is it liquid, can you access those dollars, or that equity, whenever you need it, and can you access it immediately? 3) Does it provide a rate of return; will it create a passive and powerful retirement income?

Paying off your home certainly feels good and is indeed a wise thing to consider, but the question must be, is it the single best thing to invest your hard earned dollars in? Looking at the facts, is paying off your home **first** indeed your greatest investment, or is it the single **worst** performing investment in America?

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