Performance Dashboard as of July 31st 2020							
INDEX:	**MSCI ACWI**	**S&P 500**	**Russell 2000**	**MSCI EAFE**	**MSCI EM**	**Barclays Glbl. Agg. (hedged)**	**Gold**
July:	+5.23%	+5.64%	+2.77%	+2.35%	+9.03%	+.72%	+10.94%
YTD:	-1.92%	+2.38%	-10.57%	-8.97%	-1.52%	+3.01%	+30.22%

July Market Rundown:

For the third consecutive month all asset classes on the performance dashboard were positive. The persistence and breadth of upward moves across asset class prices signals investors are increasingly optimistic about the future. This optimism likely emanates from the hope there will be a Covid-19 vaccine, and additional economic stimulus programs in the near term. While asset prices have risen, we don't think the global economy is out of the woods yet. Setbacks can be expected as economies reopen, and markets may react strongly to the downside on negative surprises. To our clients, it probably comes as no surprise, we recommend staying the course with present asset allocations. We feel portfolios are well positioned to benefit from economic recovery, and if there is a market pullback there will still be "dry powder" available to add to investments with good long-term growth potential at lower prices.

Consider Refinancing:

Now is a great time to consider refinancing your home mortgage. In July, mortgage rates fell to the lowest levels ever. Rates for 30-year loans dipped below 3%, and rates on 15-year loans touched 2.48%. Costs should be considered when deciding whether to refinance, but with rates this low it doesn't hurt to explore options. When reviewing possibilities, consider aligning your mortgage loan term to pay off by the time you plan to retire. For example, if you are 45, and plan to retire by the time you are 60, a 15-year loan term is a good option. Freedom from debt in retirement stabilizes your financial plan by reducing fixed expenses and your required portfolio withdrawal rate (withdrawal rate is the percentage of your portfolio that must be withdrawn annually to fund your spending in retirement).

15-year and 30-year fixed rate mortgages hit record low rates in July. Graph source: freddiemac.com

By: M. Euston MS, CFP©

All else equal, a shorter loan term reduces the amount of interest you pay over the life of a loan. The spreadsheet attached to this email may be helpful to illustrate this point. Please feel free to run hypothetical comparisons. If one was to borrow $500k at 3% on a 30-year term, the total amount paid over the life of the loan would be $758,887 ($258,887 in interest). For the same amount borrowed, at the same 3% rate, on a 15-year loan term, the total amount paid over the life of the loan would be $621,523 ($121,523 in interest), resulting in a $137k reduction in interest.

Comparing these loans at the same rate is done here solely to illustrate the impact a loan term has on total interest paid. In the real world, you will typically get a lower rate on a 15-year loan vs. a 30-year loan (all else equal). The 15-year loan will still have higher monthly payments compared to a 30-year loan, but the interest and total amount paid over the life of the loan is substantially less. While 30-year, and 15-year loan options are the most popular, many lenders can customize your loan term to whatever term you choose. If you don't refinance, making extra or bi-weekly payments to your home loan can have a similar effect in shortening the loan term.

A good question on this topic is, instead of paying off your home, would it be smarter to carry a mortgage through retirement and invest the money to seek a higher rate of return? Our view is that paying off your mortgage by retirement plays an important role in a successful retirement plan and the benefits go beyond the rate of return math. While there is a predictable rate of return from paying down your mortgage, the main benefit is the risk reduction, and the resulting increase in your peace of mind that comes with being debt free in retirement. I would also argue that being debt free will make you more money over the long term as an investor. With no debt obligations, your behavior and confidence to act as opportunities become available will improve.

Retiring can be stressful; it is a big leap of faith. Even if you have a lot of money saved, fear spikes when your income goes away, and you start to live off your savings. This fear is amplified if there are debt obligations. The result is a tendency for many to live beneath their means at the very time they should be living it up. When you are free of debt and own your home outright, fear is dramatically reduced. One client recently told us, "As soon as the mortgage was paid off, I immediately felt more confident." Our motto at Heirloom is to "Live Well". Planning to retire debt free is a big part of that.

Please let us know if you would like a referral to a trusted mortgage broker to review your options.

Insurance & Estate Planning: Finishing the Financial Foundation

In recent newsletters, we've discussed how one can build a sturdy "financial foundation". That foundation is to follow a budget, eliminate non-housing debt, and save 3-6 months' worth of living expenses in an emergency fund. Our view is the foundation is universally applicable and building a solid foundation should be the first step in building wealth. Before moving on from this topic, there are two things that should be done coincidentally with constructing the financial foundation: basic insurance and estate planning. While a comprehensive review on these subjects is beyond the scope of this newsletter, it is important to recognize that inadequate planning in these areas could render the rest of your financial plan useless, ergo, they are foundational.

Foundational Insurance:

Insurance is a critically important consideration in anybody's financial plan. Insurance transfers various forms of risk from you to an insurance company. The trouble with insurance is that you can't buy it when you need it – you must anticipate contingencies, especially if those could have major financial impacts on you or your family. Insurance can be a complex and potentially uncomfortable topic. We highly recommend working with your financial advisor in conjunction with a reputable insurance broker to better understand your needs and evaluate what types and amounts of insurance are suitable for your situation. Here is some basic info to get the conversation started:

- **Property & Casualty (P&C) Insurance:** Property insurance protects stuff you own. Home, renter, and auto insurance fall under this category. Casualty insurance protects you from certain liabilities (for instance if you cause an accident). Frequently, property and casualty insurance are bundled together. It's good to review your P&C insurance annually (or when you have a major life change) to make sure you are properly covered.
- **Umbrella Insurance:** Sometimes referred to as "catastrophe liability insurance", this type of insurance can increase and broaden one's level of liability protection and enhance existing P&C insurance. If you have significant assets (especially in today's litigious world), this type of insurance is very important.
- **Health & Prescription Drug Insurance:** Helps cover the cost of medical, prescription, and hospital care. If you are evaluating health insurance options outside of an employer-based plan or Medicare, we recommend considering medi-share options. They may offer you sound insurance coverage at substantial cost savings vs. traditional plans available on insurance exchanges.
- **Life Insurance:** You should probably consider buying life insurance if others are relying on your income. Life insurance can reduce the financial burden on your love ones if you die prior to accumulating enough assets to replace your paycheck. "Term" insurance is a relatively inexpensive way to buy life insurance for a specified number of years.
- **Long Term Disability Insurance:** This is one of the most important, yet frequently overlooked forms of insurance. If you become hurt or sick and are unable to work or can work but are unable to generate the same level of income prior to disability, this insurance can replace lost income for you and your family.
- **Long Term Care (LTC) Insurance:** LTC insurance can help cover costly medical bills later in life that Medicare and many health and disability policies don't cover. Expenses for yourself or your spouse related to things like nursing home care, in-home care, or assisted living facilities can rapidly deplete your savings. Insuring against these costs should be considered as part of regular retirement planning.

One final note on employer insurance benefits. Your employer may offer (and even pay for) some "group", or individual insurance benefits such as life, or disability insurance. Employer-provided insurance is a great benefit; however, alone it may not adequately cover your needs. Also, typically these policies are not portable (meaning if you change jobs, you may not be able to maintain the policy). Having supplemental coverage independent of employer plans should be considered.

Basic Estate Planning:

"Estate planning" covers a wide range of topics, at least some of which are relevant to every adult. Having an estate plan in place is critical to your future and helps ensure your loved ones are cared for. Here are a few examples of things that fall under the "estate planning" umbrella:

- Define what you want to be done with your assets when you die
- Enable your estate to bypass probate & reduce costs associated with the settling of your estate
- Review and update beneficiary designations on insurance policies and retirement accounts
- Plan for tax efficient gifting of assets prior to death
- Outline advanced medical directives and select & authorize individuals to make decisions with your money and healthcare if you are unable
- Designate who you would want to take care of your children if you die or become incapacitated
- Minimize potential estate taxes

Completing your estate plan may seem like an unpleasant task. It can be particularly distressing to think about dying. The truth of the matter is that we are all going to die, so we might as well go out in style with a well-prepared estate plan. Once the estate plan is in place, it will feel as though a weight has been lifted, and your peace of mind will be increased.

While your advisor at HWM can assist in getting the ball rolling with your estate plan, we are not qualified to provide legal advice, nor can we prepare relevant legal documents. We highly recommend that you work in conjunction with an attorney and financial advisor to identify and address estate planning needs relevant to your situation. Once in place, make sure to conduct periodic reviews to keep things updated.

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