Paying Off The Mortgage Verses Money In The Stock Market

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I’m often asked for my opinion on whether or not it’s best to pay off one’s mortgage versus investing the money and carrying a mortgage.  Let me share my perspective on this given the many years of experience I’ve had with people facing this decision.

Let’s understand the premise first.  The theory is that you are better off carrying mortgage debt and investing the funds, which could be used to retire the debt in other ways, therefore earning a much greater rate of return than the interest rate on the loan.  It’s a pretty straightforward argument and hard to counter on its face.  However, let’s consider the following:

1. In my experience, few people have the self-discipline to actually save the funds they would otherwise use to pay off their mortgage debt.  Those funds end up being spent on things and experiences rather than being saved, defeating the rationale behind the action taken.
2. While home mortgage rates have been low for the last decade (since the Great Recession of 2008-2009), they have been steadily rising in recent months and are expected to continue to do so as the Fed continues to increase short-term rates.
3. Conversely, the returns in the stock market are coming down (YTD, the market is basically flat at this writing) and are projected to be generally lower – averaging 5-6% per year – over the next decade.  So, the difference between market returns and loan interest rates may be quite small or non-existent.  And, most investors only earn about half the market’s return so the difference is really much smaller than normally advertised.
4. When we have the next recession (notice I didn’t say IF, but when), paying that mortgage could be difficult if you experience a job loss or other economic hardship.  In the last recession, millions of people lost their homes to foreclosure and that can certainly happen again.  Being debt free is a great comfort in tough economic times.
5. Also, the next recession will undoubtedly result in a major correction in stock prices.  Having to liquidate investments at a time when they are down 30-40-50% to meet monthly expenses could put your retirement plans back a decade or more.
6. If you have sufficient financial resources to pay off the mortgage anytime you desire, then carrying the debt creates far less risk than for someone whose retirement would be jeopardized if they had to liquidate savings to pay off debt.

These are just a few of the many factors you should consider before deciding to forego paying down/off the mortgage in order to invest more money in the stock market.  As always, circumstances vary from person to person so it is wise to look at your individual situation rather than doing something because a friend or family member tells you this is what they are doing. Each situation is very different. It’s best, in my opinion, to look at the whole picture and weigh the pros and cons. Meeting with an Independent Financial Fiduciary who must put your best interest first, to go over your actual concerns & individual situation can help you put your choices in perspective.

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