HD WEALTH STRATEGIES
AN INDEPENDENT FIRM

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TOUCHSTONE

THE FIRST QUARTER NEWS FROM HD WEALTH STRATEGIES

MOLLY DEML
Associate Financial Advisor

COOPER & DEML FAMILY UPDATE

A New HD Team Member is Born!

It's been an adventurous year for our little family! Chad Cooper and I are so proud to announce that our daughter Makenna Jeanne Cooper was born at 3:36am on Friday, April 8th, weighing in at 7lb 6oz and 19.5" long.

She and I are both healthy as can be. She is a great little eater and even lets her dad and I get some sleep every now and then.

Thank you all for the kind wishes and prayers sent our way! The three of us are very blessed.

FINANCIAL STRATEGIES LEAD STORY

THEN COMES THE BABY IN THE BABY CARRIAGE

Written by: Allie DeYoung, Financial Advisor, CFP®, CPA

Exciting! You've started a family. So, in addition to managing minimal sleep, new schedules to get used to, and finding how to buy MORE non-iron work shirts (because who has time for that?), you have a new financial situation to manage. Your little bundle of joy will be off to college before you know it...and the earlier you start to save the better. However, at the end of the day, there is only a certain amount of money left each month, so you will need to determine the appropriate amount to save for college while also saving for retirement, repaying debt, etc. Just remember, when it comes down to it, there are options for paying for college tuition: student loans, scholarships, grants, etc. With retirement funding, there are no such options—you either work longer or cut expenses. Before just socking money away on a monthly basis for college savings, make sure to have your full financial plan moving in the right direction. Parents, like any other investors with a specific goal, need a strategy.

Common college savings...

First option: **529 savings plan.** Most states offer a 529 savings plan. In Colorado, ours is offered through Legg Mason mutual funds and is called Scholar's Choice or CollegeInvest. These plans offer state tax deductions for contributions. So, if you contribute $10,000 to the plan, you will receive a state tax deduction of 4.63% (CO Income tax rate), so a tax benefit of $463 that year. The contributions are not federally tax-deductible, however. The major benefit is the fact that the gains on the investments in a 529 plan are not subject to tax so long as the funds are used for college expenses. If not, the gains are taxable and a 10% penalty may apply.

Over the years, I've found that many parents are familiar with 529 state college savings plans; however, what a lot of parents don't realize is that this is not their only option. Depending on your current tax situation, timeline, and money available to invest, there may be other options.

Another investment idea to consider...

If you and your family have significant taxable income, you may want to consider a municipal bond zero coupon. This type of municipal bond is sold at a discount to par and matures at par value on a stated date. Instead of bi-annual interest payments, like a traditional municipal bond, the interest accrues each year until it matures at par value. It is an individual bond with a stated yield to maturity, so it is predictable—you know what you're getting from a return perspective, unlike a stock portfolio. From day one, you know the return until its maturity date (assuming the bond is held to maturity and the municipality stays afloat).

... Continued on Next Page

Allie DeYoung
Financial Advisor, CFP®, CPA

Then Comes the Baby in the Baby Carriage...

This is not a college-specific investment, so there are no requirements around what the dollars are ultimately used for. This is beneficial in case your children decide not to go to college or other needs arise. An additional benefit for investors is that the interest earned on the municipal bond zero coupon is exempt from federal income tax. These bonds may provide returns that are more predictable and appealing on a net basis than comparable taxable securities.

The best strategy, depends on you...

Every family is different. Start by establishing the total amount you want to allocate to college savings. From there evaluate all of your different investment options, including 529 state college savings plans, municipal bond zero coupon, and also taxable accounts to determine which is most appropriate for you and your family. Once you have your plan in place, you can focus on more important things, like helping your son or daughter pick a major- – anything from Accounting to Adventure Education (which is an actual major by the way...where was that when I was in college?!).

Opinions expressed in this article are those of the Steven Higgins and are not necessarily those of Raymond James. All opinions are as of this date and are subject to change without notice. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. There is an inverse relationship between interest rate movement and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Raymond James is not affiliated with nor

Rising Mortgage Rates May Cause Home Prices To Go Even Higher

By: Steven Higgins, Financial Advisor, Principal

Turn on the news or walk in to your local coffee shop and it doesn't take long to hear somebody talking about the raging real estate market anywhere within a $50 Uber ride from Denver or Boulder. This new found personal wealth is a refreshing reprieve from many who limped out of the "Great Recession" 6 years ago. However, the increase in your bungalow's value may not do you any good unless you're going to move to out of state and commute. Remember, you can't take the mountains with you.

The other headline grabbing business news is of course the looming rise of interest rates (audible sigh). If you have been a reader of my articles over the last few years then you know I'm tired of writing about "the great rate debate." It seems the consensus is that as the Federal Reserve (Fed) raises rates, all hell will break loose. Stocks will crash, bonds will poison you if you get near them and real estate will return to it's natural state....worthless dirt. Let us clarify a couple of things. First, the Federal Reserve only controls the Fed Funds Rate, the rate at which banks lend each other money over night. Second, all other rates are dictated by supply and demand. Third, U.S. Treasuries are yielding more than their global counterparts and if the whole world, sans America, is keeping rates low, then the world will be buying American bonds, keeping the American bond prices high and American interest rates....not so high.

Let's talk about those home prices. In the Denver/Boulder area home prices have increased substantially over the last few years. Not only have they made up for what they lost in 2008, they have reached all time highs in many areas. Recently, a local Realtor told me that he put in an offer for a client on a home with a listing price of about $250,000. The offer was $30,000 over the asking price. The offer was not accepted. That's unbelievable! So why are home prices climbing faster than a cat in a flood? Simple. Moderate demand and very little supply. A quick search on realtor.com for single family homes for sale in Broomfield and Boulder Counties (combined population of about 370k) revealed less than 30 single family homes for sale under $400,000. Only one home was in the city of Boulder.

Here's Why:

1. There is very little new building in the area.

Many builders slowed operations after 2008 because of the recession and are slow to ramp up. In addition, local municipalities have put building restrictions in place. Boulder and Broomfield counties are picky about what can be built where. Finally, Boulder and Broomfield Counties are running out of places to build. Broomfield used to be "out in the sticks," now Broomfield is one of the major Business hubs of the Denver Metro area. "It ain't your Grandma's Broomfield." However, if Grandma has lived in Broomfield for a while, she's made a killing on her home.

2. Influx of High Income Earners

The city of Boulder has a very high median home price of $685,000* but that doesn't keep people from moving there. Boulder experienced net population growth in 2015 of 2,390 people*. In 2015 Boulder only added 697 new housing units with less than

Outlook

In 2014 Boulder had one housing unit for every 2.28 people. The growth in Boulder in 2015 represented only 1 housing unit for every 3.42 new residents. That means that Boulder only added two-thirds of the homes they needed to keep pace. With GOOGLE alone adding over 1000 jobs in the next year, don't expect this phenomenon to end any time soon. *data sourced from 2015 Boulder community Profile

Rising Rates Could Cause Home Prices to Go Even Higher.

This is a contrarian view to say the least. With the 30 year mortgage rate near 4% banks are not taking any chances. It's pretty much a public service that they issue any mortgages at all. If a bank lends money for 30 years at 4% and rates just go back to average, around 7%, the banks lose. Picture this, in the summer of 2008, money market savings accounts were paying over 4%. Think of that as a 1 day bond. Can you imagine a scenario where you lent somebody money at 4% per year, locked up for 30 years but you had to pay somebody else 4% just to borrow it over night. You can be darn sure that if a bank is going to issue somebody a mortgage at a crazy low rate that person is going to need a down payment, a 750+ credit score and great job. If the banks know they are going to lose many on the best borrowers they sure aren't taking any risks.

Now fast forward to the apparently all but certain future of higher interest rates. Let's say mortgage rates are normal at around 7%. The banks think very differently and now they get to use their arsenal of solutions. At 7%, the banks can lower lending standards, issuing loans to more people. Sure, some of those loans may not work out, but at 7% you can afford to lose a few apples off the back of the wagon. Also, remember Adjustable Rate Mortgages (ARMs). Well they don't make any sense when rates are at record lows. People "fix" loans when rates are low, they use ARMs when rates are higher hoping for better rates later. Banks have lots of tools available to mitigate high interest rates for eager borrowers. In addition to ARMs, there are interest only loans, balloon loans, 0% down loans, and more. And there is no law that says banks can't issue loans with terms over 30 years. Why not a 45 year mortgage? So, higher rates give banks more flexibility and allow the banks to take risk. That means more borrowers, more buyers, more demand.

Waiting to buy may be risky...

Think Rising Rates will Cause Real Estate Prices to Drop?

Many people argue an increase to mortgage rates will lead to less buyers and price drops. I challenge the logic of waiting to buy based on that assumption. For borrowers, those using a mortgage loan to buy homes, there are two components that make up the cost of buying: 1. Home Price and 2. Interest Rate. If interests rates go up causing home prices to drop, the drop would need be so significant that it would offset the effect that the increased interest rate had on the cost of buying the home. For example, $400,000 borrowed with a 30 year mortgage at 4% carries a $1909 monthly payment (principal & interest). If the home price drops by 10% and the rate is increased by 1%, ($360,000 borrowed at 5%) the payment is roughly the same at $1932 per month. So, we know somebody waiting for prices to drop before buying a home needs the price of that home to drop by 10% for every 1% increase in mortgage rates. History tells us that likely won't happen. During the "Great Recession" of 2008-2009 the median home price in Broomfield County dropped by 6%. In Boulder, prices actually increased. Buyer beware. historically mortgages average between 6% and 7%.

I'm neither a mortgage broker nor a real estate broker. As a financial advisor, I help clients make sound and logical decisions based on the best information available. It's important to understand, consensus is not always correct. The goal is to have more sound, practical decisions than emotional ones. Real estate is a major component of our client's financial wellbeing and we certainly take the time to consider the best options.

Josh Cook
Communications Strategist, MBA

Upcoming Events

Kohl 5k

The 7th Annual Kohl Elementary 5K Run/Fun Walk is almost here! This year we are raising funds for mobile computer labs for Kohl Elementary School while at the same time having fun and inspiring children and adults alike to develop and maintain healthy lifestyles in the community. Join us Saturday, May 7th at Kohl Elementary for the race!

Bike MS

Join us in our ride for Bike MS! We've formed a team for Bike MS because, at our core, we believe that participating in this meaningful event is not only a fantastic experience for riders, but is also a foil which allows participants to advocate for change, help fund MS Society research and help better the lives of people in our Colorado community. Multiple Sclerosis can be a devastating disease but with the energy and enthusiasm of events like Bike MS, we will find a cure. Find our more on our website www.higginsdeyoung.com/bikems

Live Long, Live Healthy

The next installment of our "Hungry for Information Series" kicks off with "Live Long, Live Healthy" on Wednesday, July 20th at our office. We will be discussing how healthy lifestyle choices must be combined with healthy financial decisions to prepare for a healthy retirement.

Steve Higgins
Principal,
Financial Advisor

Q1 Market Update

U.S. Stocks

2016 was a horrible start for stocks. By early February, stock indexes had already posted losses of up to 12%. Needless to say market doubters had plenty to say. The media took advantage of the drop to remind us how bad it was in 2008 and many investors were paralyzed with fear. Here at HDWS we welcomed the opportunity and did our best to challenge the consensus. The end of the quarter had a much different tone than the start. Major stock indexes recovered all of their losses for the year and the DOW Jones Industrial Average finished just 3% away from an all-time high. Investors who stayed calm were rewarded and those who were able to take advantage of the pull back should be pleased. It remains to be seen how the ever present interest rate environment and the presidential election will effect returns going forward, however the first quarter of 2016 proved once again that the US stock market while not impressive, is resilient.

International Stocks

If US stocks are resilient, then European stocks have been downright obstinate. The European Central Bank (ECB) has pulled every lever, reducing rates and in some cases money is almost free. The annual yield for German 10 year bond has seen lows of .10%. With all that cheap cash, you'd think the economy and stock markets would respond. However, Europe continues to face the real challenge of fear as the Paris and Brussels attacks remind us that there are real issues that need to be dealt with. European stocks finished the quarter down about 1% which is a testament to investor's economic fortitude. European stocks have faced issues like Russia, Greece, Spain, Portugal, immigration problems, and terrorism yet remain steadfast.

Bonds

In December of 2015, the Federal Reserve (Fed) announced that it was going to increase the key interest rate by .25%. What was widely expected to be the beginning of an across the board increase in interest rates actually turned out to be the beginning of a drop in interest rates. If you're confused, you are not alone. Way back in the summer of 2014, we wrote an article (it's still on our website) explaining how the European Central Bank reducing European interest rates will keep US rates low as well. That is exactly what happened. At the beginning of the year the yield on the US 10 year Treasury was 2.22%. By March 31, that yield had dropped to 1.78% a reduction of almost 20%. The reason for this drop is simple: demand. European yields dropped to almost nothing, the German 10 year bond was yielding as low as .10%. So, global investors looking for the best deal, bought the US Treasury which was yielding almost 18 times more. As more investors bought treasury bonds, prices were driven higher. Since interest rates move in the opposite direction of prices, we are now testing the all time low rates...again. For all the talk and conjecture, rates are exactly where they were in the spring of 2013, before the end of the historic bond buying program, before the "taper tantrum" and before the Fed raised rates.

-- Market returns and interest rate figures from Bloomberg.

Watch for our
Fun and Fact Filled Events throughout the Year

Higgins & DeYoung
Brews & News
Hungry for Information Series

Higgins & DeYoung
Lunch & Learn
Hungry for Information Series

- Presented By -
HD Wealth Strategies

While investments remain the engine, it's the quality of the strategy itself that is most important. The advisors at Higgins & DeYoung are committed to being a firm that crafts strategies and manages investments to reach goals for our clients.

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www.HigginsDeYoung.com | 720.287.0918

HD is an Independent Firm 12303 Airport Way, Suite 145 Broomfield, CO 80021

Disclaimer Corner

The DOW Jones Industrial Average (DJIA) known as "The DOW" is an index representing 30 stocks of companies maintained and reviewed by the editors of The Wall Street Journal.

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