The Compound Effect:

Building Your Household's Wealth

Wealth is within reach for many people; however, according to a recent study **63 percent** of Americans said it's not likely they'll become rich.[1] Don't just dream of being wealthy; start taking the steps to make it a reality. There is no secret to becoming rich: it takes time, sacrifice and good financial sense. Here are a few ways to build your household's wealth.

Let Compound Interest Work for You

Compound interest is your interest earning interest. While the concept may work against you when you take out a loan to buy a car or use your credit card, it works in your favor when saving money. Your money will grow exponentially the longer you save: the more money you've saved, the more your money will grow. For example, if your savings is growing at a rate of four percent, your investment will double in eight years and quadruple in 16 years.

Tap into Your Home Appreciation

Experts expect home prices to appreciate **3.24 percent** and grow by **21.4 percent** cumulatively.[2] If a homeowner purchases a home this year for **$250,000**, they could earn more than **$40,000** in equity over the next five years. Although the home value of the average American family's home is **$165,000**, home values vary by market.[3]

Build Equity in Your Home

One of the most compelling reasons to own a home is it allows you to build wealth over time. Saving for a down payment, especially if you plan to put down more than **20 percent**, helps you adopt good financial habits. The more you put down when you buy, the higher your share of equity when you close. Although for the first five to seven years, the majority of your payment will go toward interest, over time more money will be applied to the principal. Build equity sooner by choosing a shorter amortization term. While your payment may be higher, you'll likely qualify for a lower interest rate and will pay less interest over the life of the loan.

Sources: 1. BankRate.com
2. Pulsenomics, Home Price Expectation Survey Q4 2016
3. Statistic Brain, August 1, 2016
4. The Motley Fool, July 30, 2016

Purchase Investment Property

Investment properties provide passive income to your growing financial portfolio. More than **25 percent** of Americans say real estate is the best way to invest money you may not need for the next 10 years.[4] While many people flip houses to make money—that is, they buy a home at a low price, fix it up and sell it quickly—others purchase multifamily properties to create monthly cash flow to save or to reinvest in other properties.

The longer you own a property, the better investment it becomes as you'll continue to build equity. While rental costs rise with inflation, your mortgage will remain the same. The best part? Once you pay off the mortgage, your cash flow will increase.

There are tax benefits to owning investment property as well. You may be able to claim deductions for depreciation, as long as it fits within the guidelines; repairs, travel expenses, interest and more. If you're thinking of purchasing investment property, talk to your tax professional to get the details.

Pay Down Your Mortgage…or Not

Many homeowners grapple with whether or not to pay down their mortgage. On one hand, if you pay it down, or pay it off early, you'll save money on interest, which you can use to make other investments. On the other hand, if your goal is to be debt free, it's better to pay off your higher-interest debt, such as credit card debt, first before paying down your mortgage debt. Additionally, if you're saving for retirement, putting extra cash toward your retirement accounts will help you build a nice nest egg to enjoy later on. Your financial advisor can help you decide if paying off or paying down your mortgage is right for your goals.

Achieve More Wealth by Creating Financial Goals

Setting a goal will help you achieve your desired level of wealth. Once you achieve one goal, reassess and set the bar higher.

1. **What is your idea of wealth?** What do you want your net worth to be in 5 years, in 10 years and in 20 years?

2. **Write down your short-term and long-term goals.** Once you have your goals in mind, write them down. This will make it easier to refer to them later on.

3. **Develop a budget to help you reach these goals.** A budget not only helps you understand where your money goes each month, it may also prevent you from overspending. That way you can have more money to save and invest.

To increase the amount you can invest, make adjustments to your daily spending and monthly bills, if possible. Look for opportunities to save money and transfer that savings into your accounts.

If you're curious about the value of your home or looking to invest in homeownership, give us a call!

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