SPOTLIGHT ON FINANCE

View on the Market
October 2020

After what has been a challenging year, many investors are worried about how markets may react in the fourth quarter. With the presidential race underway and the continuing pandemic, there is significant economic uncertainty hanging over investment portfolios. It's natural for some investors to wonder whether they should sit on the sidelines until the dust settles.

While it may not always seem this way, uncertainty is positive for investors in the long run. This is because times of uncertainty create opportunities. Having the fortitude and discipline to invest when others are too nervous to do so has historically been rewarded. Additionally, there is always another potential investor concern around the corner. Having absolute certainty means it is often too late.

There is perhaps no better example than the past six months. Those investors who considered sitting on the sidelines after the bear market crash that began in February would have missed the recovery if they blinked. During the third quarter of 2020, the S&P 500 fully recovered its losses and gained 8.5%. Not only are U.S. stocks up 5.6% (with dividends) for the year, but the round-trip required only six months. But don't be fooled by the S&P returns. Many stocks have not recovered especially in Energy, Banking, hospitality and retail sectors. This period is further evidence that it's difficult to time the market effectively and that overreacting to short-term market developments can often backfire.
The market did stumble during the third quarter due to concerns about technology stocks, especially more speculative ones. This speaks to the growing importance of large technology companies to our economy. Many that are considered to be technology companies are actually in sectors such as Consumer Discretionary and Communication Services. As a whole, tech-led sectors and growth stocks have still significantly outperformed this year. The Russell 1000 Growth Index has risen 23% while the Russell 1000 Value Index has fallen over 13%.

Why has the broad stock market done well despite the pandemic? This is largely driven by the economic recovery that has been underway since cities and businesses began to reopen in the summer. Nearly all economic data show a bounce-back in many areas including hiring, consumer spending, manufacturing activity, and more.

Of course, not all areas are recovering. Restaurant dining is still down 40% across the country and there are 70% fewer air travelers. Many small businesses are closing and business bankruptcy filings are rising. This is arguably one area where targeted government support has

helped to keep businesses and individuals on life support.

As we begin the fourth quarter, the presidential election is only a month away and the country is as polarized as ever. Not only are the candidates very different, they are different in ways that will likely affect everyday Americans through their tax, economic and foreign policies. However, history has shown that while elections are incredibly important for all Americans as taxpayers, voters and citizens, it's important to keep a level head when investing.

This is because the stock market has performed well over the past century under a variety of different presidents and parties. A reasonable analysis shows that there is no combination of political parties for the White House, Senate and the House that has averaged less than 10% in annual total returns. In other words, from a stock market perspective, there is no compelling reason to believe that one party or another will directly cause a recession or stock market crash.

This does not mean that there won't be stock market corrections in the short run, or that either candidate will implement sound economic policies. What the data show us, however, is that the stock market depends on many other factors besides who controls Washington.

This fact may be difficult to swallow for many investors. After all, politics affect many parts of our lives, making it hard to separate these feelings from our investment portfolios. This is why having the discipline to do so is a critical ingredient to long-term success.

Additionally, investors and the broad market are often wrong about the impact of presidents and their policies. It was generally accepted leading up to the 2016 election that a Trump presidency would result in an immediate economic crisis and a stock market crash. Not only did this not happen, but the stock market proceeded to make new highs. The same is true during the 2008 and 2012 Obama reelection campaigns when it was argued that having a Democrat in the White House, and later the Affordable Care Act, would tank the stock market. This didn't happen either.

As with all things, it's difficult to separate skill from luck. It is certainly the case that specific policies can affect individual industries and companies, especially when it comes to taxes and international trade. However, when it comes to the stock market and economy as a whole, the overall trends of the business cycle simply matter much more than any individual in office. Ultimately, investors should recognize that uncertainty is a key ingredient to achieving long run stock market returns. Without uncertainty, everyone would invest which would drive up prices and drive away returns. Although Q4 may be fraught with uncertainty, it's also clear that many parts of the economy are recovering from the economic shutdown. The balance of these factors will be what matter for long-term investors in the years to come.

Below are five charts that highlight these important topics for the remaining months of the year.

1. **Five of the nine sectors are still negative for the year and PE ratio's for growth are much higher than average**

Equities

QTD

	Value	Blend	Growth
Large	5.6%	8.9%	13.2%
Mid	6.4%	7.5%	9.4%
Small	2.6%	4.9%	7.2%

YTD

	Value	Blend	Growth
Large	-11.6%	5.6%	24.3%
Mid	-12.8%	-2.3%	13.9%
Small	-21.5%	-8.7%	3.9%

Since market peak (February 2020)

	Value	Blend	Growth
Large	-12.6%	0.5%	13.8%
Mid	-14.3%	-5.9%	6.5%
Small	-19.9%	-10.1%	-1.2%

Since market low (March 2020)

	Value	Blend	Growth
Large	41.3%	51.7%	66.0%
Mid	51.4%	57.5%	65.6%
Small	40.9%	51.5%	60.6%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	17.2 / 13.7	21.5 / 15.4	30.5 / 18.6
Mid	18.0 / 14.3	22.2 / 16.2	38.0 / 20.3
Small	20.6 / 16.6	36.8 / 21.1	124.4 / 64.2

Current P/E as % of 20-year avg. P/E

	Value	Blend	Growth
Large	126.3%	139.7%	163.6%
Mid	125.6%	136.9%	187.4%
Small	123.9%	174.6%	193.8%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period between February 19, 2020, and September 30, 2020. Since Market Low represents period between March 23, 2020, and September 30, 2020. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price to earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates.

Guide to the Markets – U.S. Data are as of September 30, 2020.

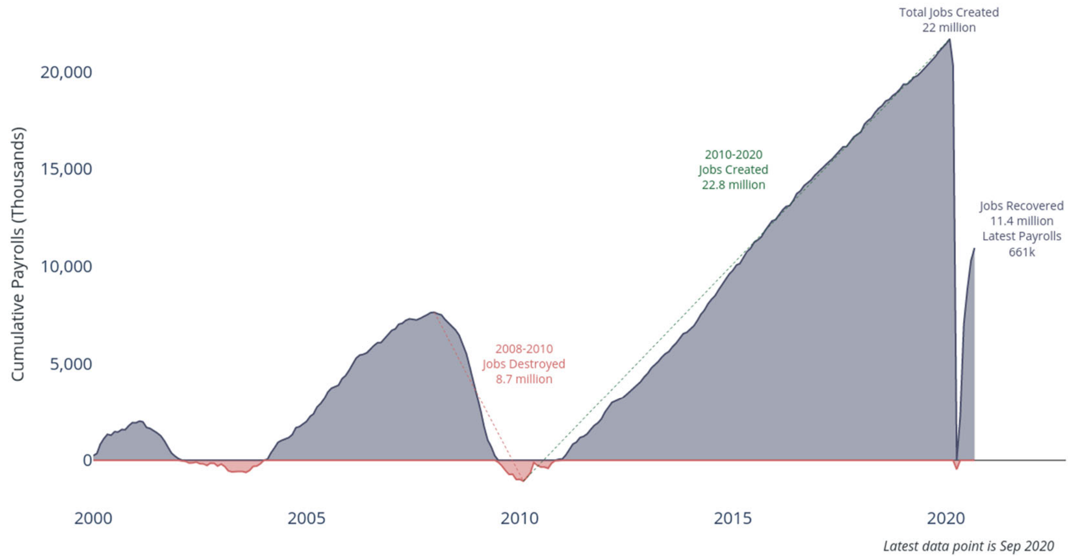
2. Many parts of the economy are recovering

Market and Economic Chartbook | October 7, 2020

Labor Market

Total Jobs Created Since 2000

Cumulative change in non-farm payrolls, seasonally adjusted



Source: Bureau of Labor Statistics

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The rising stock market has been driven by a recovering economy. Despite the severity of the COVID-19 pandemic and ensuing nationwide shutdown, many businesses and workers have been able to return to work. While there are still millions unemployed and receiving jobless benefits, this can also slowly improve as we learn to better manage the ongoing crisis.

3. It's important to separate political feelings from investing

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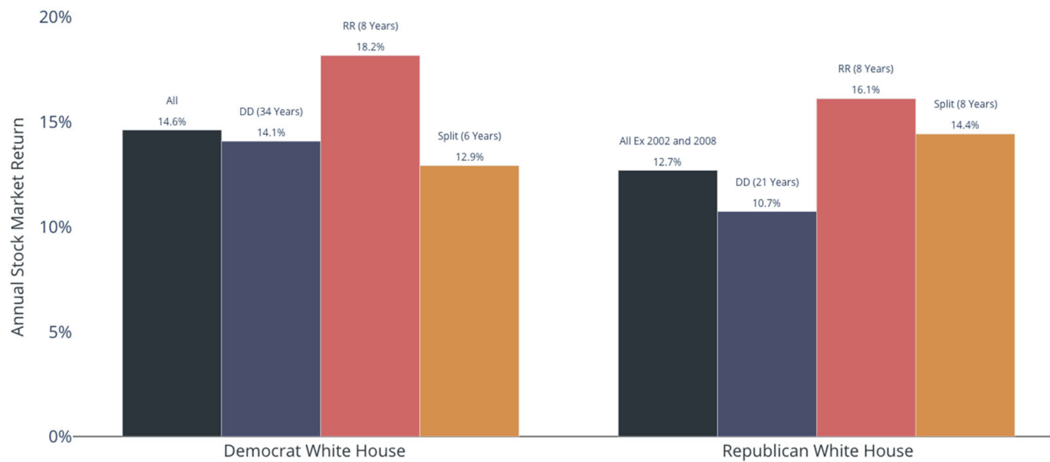
Politics

Political Parties and Stocks

S&P 500 average annual total returns by government control
From 1933 to 2019 excluding 2002 and 2008



Latest data point is Dec 2019

Source: Clearnomics,
Standard and Poor's

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The presidential election is front-and-center in the minds of investors. Although we all have firmly established notions about each party and their economic policies, the reality is that stock markets have done well under both Democrats and Republicans. This is true even after adjusting for Congressional control.

4. The Fed will keep interest rates low

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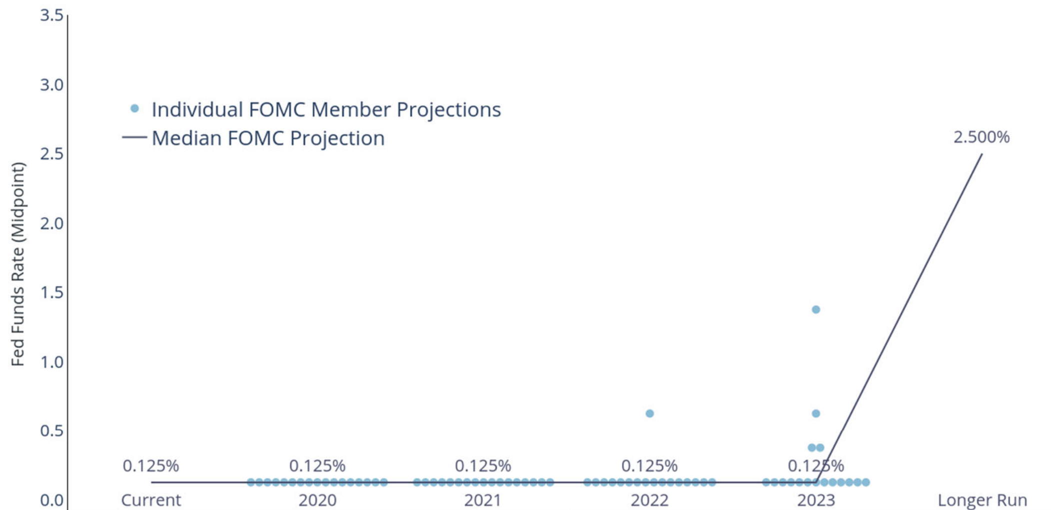
Central Banks

Federal Reserve Dot Plot

FOMC Participants' Projections of the Federal Funds Rate



Source: Federal Reserve

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The Fed has made it plain that they will continue to support the economy through the economic crisis. Their updated Summary of Economic Projections show that they intend to keep interest rates at or near zero percent through at least 2023. This is in addition to other Fed policies which have greatly expanded their balance sheet this year.

5. Diversified portfolios have held their ground this year

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Asset Allocation

Asset Class Performance

Total Returns

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EM 34.5%	EM 32.6%	EM 39.8%	Fixed Income 7.9%	EM 79.0%	Small Cap 26.3%	Fixed Income 7.7%	EM 18.6%	Small Cap 41.3%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 26.6%	EM 37.8%	Fixed Income 0.1%	S&P 500 31.5%	Fixed Income 6.5%
Commodities 21.4%	EAFE 26.9%	Commodities 16.2%	Balanced -22.3%	EAFE 32.5%	EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.5%	Fixed Income 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 22.8%	S&P 500 5.5%
EAFE 14.0%	S&P 500 15.8%	EAFE 11.6%	Small Cap -31.1%	S&P 500 26.5%	Commodities 16.8%	Small Cap 1.0%	Small Cap 16.3%	EAFE 23.3%	Fixed Income 6.0%	EAFE -0.4%	Commodities 11.8%	S&P 500 21.8%	Balanced -4.8%	EAFE 22.7%	Balanced 2.9%
Small Cap 7.7%	Small Cap 15.1%	Balanced 8.5%	Commodities -35.6%	Small Cap 25.6%	S&P 500 15.1%	Balanced 0.8%	S&P 500 16.0%	Balanced 16.1%	Small Cap 5.8%	Balanced -1.4%	EM 11.6%	Balanced 15.2%	Small Cap -8.5%	Balanced 20.3%	EM 1.0%
Balanced 7.3%	Balanced 12.9%	Fixed Income 6.6%	S&P 500 -37.0%	Balanced 21.0%	Balanced 12.2%	EAFE -11.7%	Balanced 11.2%	Fixed Income -2.0%	EM -1.8%	Small Cap -2.0%	Balanced 8.3%	Small Cap 13.2%	Commodities -11.2%	EM 18.9%	EAFE -5.0%
S&P 500 4.9%	Fixed Income 3.9%	S&P 500 5.5%	EAFE -43.1%	Commodities 18.9%	EAFE 8.2%	Commodities -13.3%	Fixed Income 3.8%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Income 2.4%	Fixed Income 3.6%	EAFE -13.4%	Fixed Income 8.5%	Small Cap -11.3%
Fixed Income 2.3%	Commodities 2.1%	Small Cap -0.3%	EM -53.2%	Fixed Income 3.0%	Fixed Income 6.4%	EM -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	EAFE 1.5%	Commodities 1.7%	EM -14.2%	Commodities 7.7%	Commodities -11.4%

Latest data point is Oct 6, 2020

- The Balanced Portfolio is a hypothetical 60/4 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 39% U.S. Bonds and 5% Commodities.

Source: Clearnomics, Refinitiv

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In the long run, investors who can stay properly diversified and invested have greater odds of financial success. This year is further proof that holding an appropriate mix of asset classes can help investors to weather any storm.

The bottom line? Although elections and the pandemic may bring significant uncertainty, this may present opportunities for long-term investors. As always, if you have any questions or concerns, please reach out to your advisor.

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The S&P 500 is a market capitalization-weighted index of large cap U.S. stocks. U.S. mid-cap, and small cap are the S&P 400 and S&P 600, respectively. Value and growth are the corresponding Standard and Poor's value and growth indices. MSCI EME is an index of emerging market stocks. MSCI EAFE is an index of developed market stocks. *Asset Class Performance and Asset Classes Relative to U.S. Stocks charts: The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index. The information contained herein has been obtained from sources believed to be reliable but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty express or implied, is made as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein.*

Required Minimum Distributions for 2021

Over the past year, there have been some changes to the Required Minimum Distribution (RMD) rules. As a refresher, under the SECURE Act, for people who attained age 70-½ after December 31, 2019, the age for RMDs increased to 72. As part of the CARES Act, RMDs were waived for 2020.

RMDs will return in 2021. If you were already taking an RMD, remember, you will be a year older than when you last took it, and the minimum will be a slightly higher percentage. Don't worry, we are keeping track for you and will be in touch when its time to take your distribution. In the meantime, please reach out to your advisor if you have any questions or concerns.

Maryland's New Elective Share Law – How it Could Impact You and Your Estate Plan

The Covid-19 Pandemic has made many of us think about mortality…our own and the mortality of others. I know, it's a morbid thought, but something we all need to address. Especially when it comes to estate planning. The way we have organized our estate plan is extremely important in general, but especially crucial in second or more marriages where one might be leaving assets to a combination of a current spouse, children from different marriages and other relatives.

Under prior law, Maryland protected a surviving spouse from being disinherited by giving him or her the right to take an elective share of the decedent spouse's estate, unless otherwise agreed to by waiver, prenuptial or postnuptial agreement. Barring a prior agreement, the surviving spouse had the right to elect against the decedent spouse's will and receive one-third or one-half of the decedent's probate estate. The lower percentage applied if the decedent had surviving issue.

As of October 2020, Maryland increased the protection for a surviving spouse by expanding the elective share to include probate (prior law) and non-probate (new law) assets…otherwise known as the "Augmented Estate." Under old law, the elective share asset pool consisted solely of probate assets. These are assets that were owned by the decedent at the time of death and to be distributed according to his or her will. Non-probate assets include assets that are not controlled by a will, such as assets that pass by operation of law (insurance, retirement accounts, joint accounts, transfer on death accounts, trusts, etc.).

To summarize what this new law means, people in second or more marriages should review their estate plan to make sure that both spouses are on the same page with what they will receive should the other spouse pass away. From a covid-19 standpoint, if it's been several years since you last updated your estate plan, now would be a good time to contact your estate planning attorney for a review. If you have questions, XML is here to help.

When Will XML Open its Offices?

We have passed the six-month point of the COVID-19 disruption, and like many companies, XML has kept its offices closed. In consideration of both our clients and our employees, our physical offices will remain closed through the end of the year. We will reassess the situation at that time to determine when we can safely reopen.

Our remote operations are running smoothly. We meet with clients via virtual meetings or phone calls, paperwork and checks are being processed so it has basically been business as usual! If you have any concerns or questions, please don't hesitate to reach out to your advisor.

8,000 Days: Envisioning Retirement in a New Way

Most of us have a pretty clear idea of what will occur in our lives before we retire. After we reach retirement, things begin to get a bit more out-of-focus.

Take a minute to visualize retirement. Try and picture everything you expect might occur. What exactly do you see?

Some of us might say images of packing up suitcases for yet another beach vacation. Then there are those who may envision carrying a new bag of clubs on their favorite golf courses. Others could perhaps envision holding onto their grandchildren's hands while walking around the local zoo.

And that might be just about all a lot of us can possibly imagine.

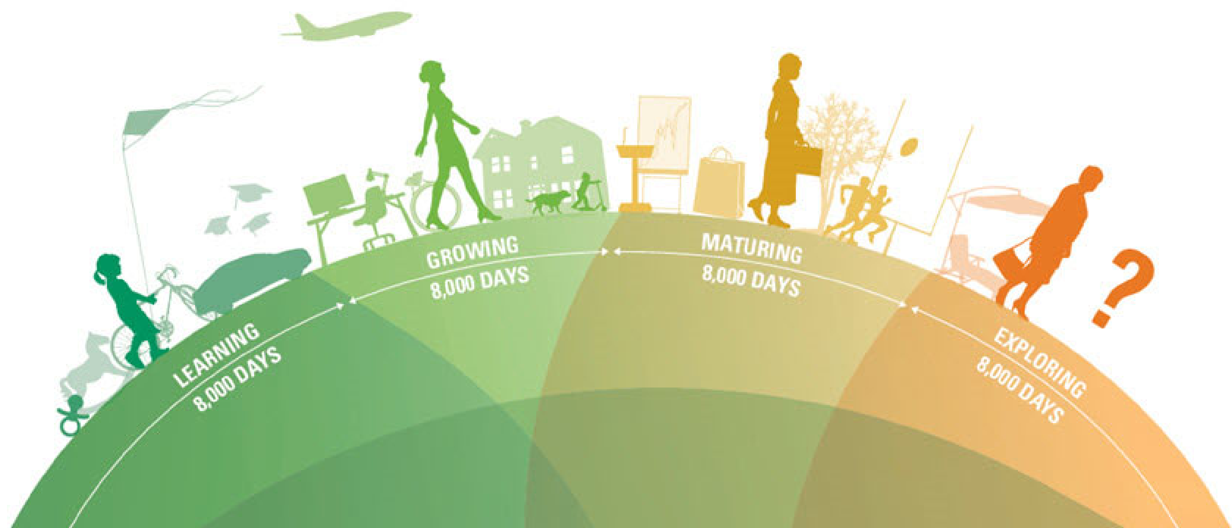
A Life in Four Parts

A typical American life can be easily chopped up into four separate 8,000-day segments. Each lasts about 22 years. The first three (Learning, Growing, and Maturing) have been pretty much mapped out for us by society and traditions (**Figure 1**). Life events familiar to all of us help frame these unique time periods from birth until when we hit retirement (Exploring). Then it starts getting a little hazy.

It doesn't have to be that way.

Retirement is often talked about as an end. You might be focused on how to prepare for it, which is critically important. But if you are looking at retirement as the final goal, then you might not be preparing in the best way possible.

FIGURE 1: THE FOUR LIFE STAGES



A Structure for Retirement

It's not our fault that we have a little bit of trouble here. Although so much goes into planning for it, we simply don't have a robust framework to create our own ideas of that time of life.

Once we begin to understand this undefined phase could potentially last 8,000 days or longer, it becomes urgent for us to strive to gain a better understanding of all it entails.

Retirement itself has many touchstones that can help us build a structure for the 8,000 days ahead. An 8,000 day retirement can be broken down into four different parts in its own right. (**Figure 2**)

FIGURE 2: THE FOUR RETIREMENT PHASES

1. The Honeymoon Phase
The transition into retirement might be slow, rather than a clean break. First, you might cut down to working part-time or working on a consulting basis, before taking the plunge into full-scale retirement. Having someone to talk it all through with can help.

2. The Big Decision Phase
Once you adjust to being fully retired, you will start facing some big decisions. These include choosing where you will live, how you will get around, and who you will spend your time with.

3. The Navigating Longevity Phase
We will all eventually begin to experience issues with health, mobility, and cognitive abilities. Simply put, our needs will be greater, but our resources may be smaller. Surrounding yourself with trusted allies can help you make important decisions.

4. The Solo Journey Phase
Health or physical issues can abruptly come to the forefront at any point in retirement. But the loss of your spouse or partner may be an even greater life event. With proper planning, you can feel optimistic about increased longevity. You can often use this period of time to reinvent yourself with renewed interest in the things you are passionate about, too.

Understanding Retirement

As you can see, there is a lot more to plan for than vacations, golf, and spending time with the grandkids. Your financial advisor can detail what to expect during these 8,000 days and help you co-author what this exciting and extensive next phase of your life will look like. He or she can help provide more information about an 8,000-day retirement that can help you understand and anticipate what you will see in the days ahead—whether that’s Day 362 or Day 3,459.

Tax-Loss Harvesting: Turning a Negative into a Positive

Conventional investing wisdom is to buy low and sell high. But you may be able to lower your tax liabilities by going against that wisdom and selling investments at a loss.

In a non-retirement account, tax-loss harvesting is the process of intentionally selling investments that have lost value. There are a variety of reasons it may be a strategy worth considering. For example, it could help you:

1. Pay less in taxes by reducing your overall income by up to $3,000 per year
2. Offset the taxes owed from selling other investments at a profit
3. Reduce your income and/or tax liabilities in future years (losses greater than $3,000 per year carry forward)
4. Rebalance your portfolio and/or adjust your asset allocation
5. By paying less to Uncle Sam today, you can keep more of your hard-earned money working for you in the market rather than putting it toward taxes. And by selling weaker-performing investments, you may be able to improve your portfolio's overall returns in the long term.
6. Tax-loss harvesting is a strategy you can use whether the market is up or down. However, it is especially beneficial following a market correction (a decline of 10% or more from a peak high) or a sharp decline in a particular holding.

What You Need to Know

Your portfolio's value fluctuates often, both up and down. But those changes aren't locked in until you sell an asset, or "realize" the difference. Selling an investment at a profit is considered a **realized capital gain**; selling it for less than the purchase price is considered a **realized capital loss**.

Each year, the IRS allows you to weigh out capital gains and losses and deduct up to $3,000 in net capital losses to reduce your income or offset realized gains on your tax return. If your losses exceed $3,000, you can carry the additional amount forward indefinitely.

If you're selling a holding but want to replace it with another that serves a similar purpose, be careful to avoid a wash sale (replacing what you sell with another holding that is too similar within 30 days). If you violate the wash-sale rule, the capital loss is no longer considered tax deductible (see "Wash Sale Dos and Don'ts).

Wash Sale Dos and Don'ts

The wash-sale rule is designed to prevent abuse of tax deductions. Here are some examples of what would and would not violate the rule.

Example: You bought 100 shares of XYZ Technology at $30, a software design company. But after bungling their latest product release, shares are selling for $20. You sell all your shares and realize the loss. A week after you sell, the company replaces the CEO responsible for overseeing the flop and shares begin to recover. You could:

- Repurchase shares immediately because you believe in the company's long-term prospects and now think it's priced at a bargain. Because you're repurchasing the same company in less than 30 days, you would **violate the wash-sale rule and negate your tax deduction** from selling at a loss.
- Explore other options in the technology space to maintain your allocation. Perhaps some competitors design software but also offer cloud-computing services. As long as the new company is not "substantially identical" to the original one, you **would not violate the wash-sale rule and would maintain your tax advantages.**
- Wait a few more weeks to see if the rally has legs. If the company seems to have recovered from its missteps after 31 days, you could repurchase the shares. This **would not violate the wash-sale rule and you could maintain your tax deduction.**

Things to Keep in Mind

To successfully harvest losses for tax purposes, you'll need to know how long you've held an asset and the price at which you originally purchased it (its cost basis).

If you have held an asset for more than a year, it's considered a long-term holding; less than a year is considered a short-term holding.

The IRS treats long-term investing more favorably: Long-term capital gains are taxed at 0%, 15%, or 20% depending on your income level. A short-term capital gain is taxed at the same rate as your regular income, from 10%-37% using 2020 tax brackets.

There are many ways to determine cost basis, from "first in, first out" to average cost. Frankly, it can get a little tricky. It's best to work with your financial advisor or tax professional to review records and make sure you know where things stand before selling investments for tax-loss harvesting purposes.

Tax-Loss Harvesting: A Benefit for Both Boom and Bust Years

Remember, tax-loss harvesting can help whether your portfolio is in a boom or bust year. Even in a down year without many gains to offset, it could still make sense to harvest your losses to reduce your overall income in a given year. Any additional losses can be used in future years, too. Think of it as a tax-deduction piggy bank: You can store this year's losses to offset another year's gains down the road.

A final word: Tax savings are certainly a benefit, but one that comes second to staying on course toward your ultimate financial goals. Tax-loss harvesting can be a powerful tool to tune up your portfolio, but ultimately, a well-designed portfolio is even more powerful. It can also be complicated, so it is best to enlist the help of a professional to maximize the strategy and keep your portfolio on track.

Talk to your financial advisor or tax professional to see if your portfolio could benefit from tax-loss harvesting.

Important Risks: *Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit or protect against a loss.*

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9 Things to Know Before You Refinance Your Mortgage

While many homeowners may be incentivized to restructure their finances by low mortgage interest rates, the decision to refinance your mortgage should be made based on your personal financial circumstances; this week's mortgage rates should not be the deciding factor on whether or not you refinance. There are nine key considerations to review before applying for a home refinance.

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1. Know Your Home's Equity

The first qualification you will need to refinance is the equity in your home. At the end of the first quarter of 2020, home values were still on the rise in the U.S. according to the Federal Reserve Bank of St. Louis. However, as of the second quarter of 2020, the median sales price of homes sold in the U.S. has declined slightly as a result of the economic recession caused by the global COVID-19 pandemic.[1]

Furthermore, according to data reported by CoreLogic at the end of the first quarter of 2020, U.S. homeowners with mortgages saw their equity increase by a total of nearly $590 billion since the first quarter of 2019, an increase of 6.5%, year over year.[2]

Still, some homes have not regained their value, and some homeowners have low equity. Refinancing with little or no equity is not always possible with conventional lenders. However, some government programs are available. The best way to find out if you qualify for a particular program is to visit a lender and discuss your individual needs. Homeowners with at least 20% equity will have an easier time qualifying for a new loan.[3]

2. Know Your Credit Score

Lenders have tightened their standards for loan approvals in recent years. Some consumers may be surprised that even with very good credit, they will not always qualify for the lowest interest rates. Typically, lenders want to see a credit score of 760 or higher in order to qualify for the lowest mortgage interest rates.[4] Borrowers with lower scores may still obtain a new loan, but the interest rates or fees they pay may be higher.

3. Know Your Debt-to-Income Ratio

If you already have a mortgage loan, you may assume that you can easily get a new one. But lenders have not only raised the bar for credit scores; they have also become stricter with debt-to-income ratios. While some factors—such as having a high income, a long and stable job history, or substantial savings—may help you qualify for a loan, lenders usually want to keep the monthly housing payments under a maximum of 28% of your gross monthly income.

Overall, debt-to-income should be 36% or less, although with some additional positive factors some lenders will go up to 43%.[5] [6] You may want to pay off some debt before refinancing in order to qualify.

4. The Costs of Refinancing

Refinancing a home usually costs between 3% and 6% of the total loan amount, but borrowers can find several ways to reduce the costs (or wrap them into the loan). If you have enough equity, you can roll the costs into your new loan (and thus, increase the principal). Some lenders offer a "no-cost" refinance, which usually means that you will pay a slightly higher interest rate to cover the closing costs. Don't forget to negotiate and shop around because some refinancing fees can be paid by the lender or even reduced.

5. Rates vs. the Term

While many borrowers focus on the interest rate, it is important to establish your goals when refinancing in order to determine which mortgage product meets your needs. If your goal is to reduce your monthly payments as much as possible, you will want a loan with the lowest interest rate for the longest term.

If you want to pay less interest over the length of the loan, look for the lowest interest rate and at the shortest term. Borrowers who want to pay off their loan as fast as possible should look for a mortgage with the shortest term that requires payments they can afford.

6. Refinancing Points

When you compare various mortgage loan offers, make sure you look at both the interest rates and the points. Points—equal to 1% of the loan amount—are often paid to bring down the interest rate. Be sure to calculate how much you will pay in points with each loan, as these will be paid at the closing or wrapped into the principal of your new loan.

TIP: Lenders have tightened their standards for loan approvals in recent years, requiring higher credit scores for the best interest rates and lower debt-to-income ratios than in the past.

7. Know Your Break-Even Point

An important calculation in the decision to refinance is the break-even point: the point at which the costs of refinancing have been covered by your monthly savings. After that point, your monthly savings are completely yours. For example, if your refinance costs you $2,000 and you are saving $100 per month over your previous loan, it will take 20 months to recoup your costs. If you intend to move or sell your home within two years, a refinance under this scenario may not make sense.

8. Private Mortgage Insurance

Homeowners who have less than 20% equity in their home when they refinance will be required to pay private mortgage insurance (PMI). If you are already paying PMI under your current loan, this will not make a big difference to you. However, some homeowners whose homes have decreased in value since the purchase date may discover that if they refinance their mortgage, they will have to pay PMI for the first time.

The reduced payments due to a refinance may not be low enough to offset the additional cost of PMI. A lender can quickly calculate whether you will need to pay PMI and how much it will add to your housing payments.

9. Know Your Taxes

Many consumers have relied on their mortgage interest deduction to reduce their federal income tax bill. If you refinance and begin paying less in interest, your tax deduction may be lower. (Although it is important to keep in mind that few people view that as a good enough reason to avoid refinancing).

However, it is also possible that the interest deduction will be higher for the first few years of the loan (when the interest portion of the monthly payment is greater than the principal). Increasing the size of your loan, as a result of taking cash out or rolling in closing costs, will also affect the amount of interest you will pay.

The provisions of the Tax Cuts and Jobs Act, passed into law in December 2017, may affect your desire to use the mortgage interest deduction. The new higher standard deduction—$24,400 for married couples filing jointly in 2020, compared to $12,700 under the previous law—may make itemizing deductions less financially attractive to more taxpayers.

Wealthier homeowners who want to refinance a large existing mortgage will still be able to deduct interest on up to $1 million in mortgage debt, but the limit for new mortgage debt is now $750,000 for homes bought on December 15, 2017, or later. Given these changes, it's wise to consult a tax advisor for individual information on the impact of refinancing on your taxes.

KEY TAKEAWAYS

- ***Before you decide whether or not to refinance your mortgage, make sure that you have adequate home equity—at least 20% will make it easier to qualify for a loan.***
- ***Check to make sure your credit score is at least 760 and your debt-to-income ratio is 36% or less.***
- ***Look into terms, interest rates, and refinancing costs—including points and whether you'll have to pay PMI—to determine whether moving forward on a loan will serve your needs.***
- ***Be sure to calculate the break-even point and how refinancing will affect your taxes.***

The Bottom Line

Like many financial transactions, mortgage refinancing is complex and requires due diligence on the part of homeowners. Speak with a reputable lender for quick answers to some of your concerns. This will help you make the important decision as to whether refinancing is right for you. If it seems like it would be a good move, do the research homework discussed above.

[1] *Federal Reserve Bank of St. Louis. "Median Sales Price of Houses Sold for the United States." Accessed August 27, 2020.*
[2] *CoreLogic.com. "Home Equity Report." Accessed August 27, 2020.*
[3] *Discover.com. "Do You Have Enough Home Equity to Refinance?" Accessed March 5, 2020.*
[4] *MiFico.com. "Get the Score Lenders Use to Evaluate Your Home Mortgage Loan." Accessed March 5, 2020.*
[5] *Zillow.com. "Debt-to-Income Calculator." Accessed March 5, 2020.Consumer*
[6] *Financial Protection Bureau. "What is a debt-to-income ratio? Why is the 43% debt-to-income ratio important?" Accessed March 5, 2020.*

Celebrating the Holidays 2020 Style

Times being what they are, families must make the difficult decision of how to celebrate the holidays, while staying safe. We would like to share the idea we came up with in lieu of our usual staff holiday party this year. Rather than let the holidays pass by unrecognized, we requested that each employee create an Amazon Holiday Wish List (with a designated

maximum amount, of course!) and share with us. XML will gift one of the items on their list and have it shipped directly to their home; with the caveat it cannot be opened until our team Zoom team meeting in December. We are encouraging them to be creative and embrace the holiday spirit…an ugly sweater or some other festive attire, decorate their surroundings for the "party" and have their favorite holiday drink or snack on hand while we all open our gifts at the same time.

While we know it's not the same as being together in person, we thought this idea would be a way to celebrate together. You may want to try this with some of your own friends or family members. It's a win-win for everyone! The recipient gets a gift they want and the giftor gets to watch them open it while sticking to a budget! However you choose to acknowledge the holiday season, we wish you all the best.

XML Staff News

We welcomed **Pete Deoudes** to XML in September. Pete is our new Director of Marketing and will become a Financial Planner, assisting our Advisors. Pete has over 20 years of experience working in the financial services industry. Previously, he was Vice President of Investor Relations at American Capital, where he was responsible for formulating and leading the strategy, management and execution of the investor relations program. Before American Capital, Pete was a Vice President in Finance at Capital One, where he spent 12 years in a variety of roles in External Reporting, Strategic Planning, Regulatory and Investor Relations. Pete started his career as an auditor at Price Waterhouse in Washington, D.C.

CONTACT US

MARYLAND OFFICE

One Preserve Parkway
Suite 120
Rockville, MD 20852

Phone: 301.770.5234
Fax: 301.770.4929
Toll Free: 800.524.5615

VIRGINIA OFFICE

7600 Leesburg Pike
Suite 120 East
Falls Church, VA 22043

Phone: 703.790.5999
Fax: 703.749.8588

COLORADO OFFICE

208 S. Ridge Street
P.O Box 3813
Breckenridge, CO 80424

Phone 970.668.5700
Fax: 970.668.6701

For more information, email brett@xmlfg.com

Find us on the web: www.xmlfg.com

Like us on Facebook: www.facebook.com/xmlfg

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