



Mission Point News and Notes

Spring is around the corner!

Mission Point Planning Group

Anthony L. Bucci
President
3912 12 Mile Rd
Berkley, MI 48072
248-504-6015
anthony@missionpointplan.com
www.missionpointplan.com

"Liking your own Facebook page is like giving yourself a hi-five in public"
author unknown

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In today's age of ever changing markets , we feel our new social presence will give you just a few more ways to stay updated on what we're doing and allow you more channels to communicate with our wonderful team.

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March 2016

Rates on the Rise: Strategies for Fixed-Income Investors

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Rates on the Rise: Strategies for Fixed-Income Investors



A long period of low yields has been challenging for many fixed-income investors, but owning bond investments in a rising interest-rate environment could become even trickier. When interest rates go up,

the prices of existing bonds typically fall. Consequently, the Federal Reserve's rate-setting decisions could affect the entire fixed-income market.

Still, bonds are a mainstay for conservative investors who prioritize the preservation of principal over returns, and for retirees in need of a predictable income stream. Although diversification does not guarantee a profit or protect against investment loss, owning a diversified mix of bond types and maturities is one way to manage interest-rate and credit risk in your portfolio.

Consider duration

Overall, bonds with shorter maturities are less sensitive to interest-rate fluctuations than long-term bonds. A bond's maturity is the length of time by which the principal and interest are scheduled to be repaid. A bond's duration is a more specific measure of interest-rate sensitivity that takes cash flow (interest payments) into account.

For example, a five-year Treasury bond has a duration of less than five years, reflecting income payments that are received prior to maturity. A five-year corporate bond with a higher yield will have an even shorter duration, making it slightly less sensitive to interest-rate fluctuations. If interest rates increase 1%, a bond's value is generally expected to drop by approximately the bond's duration. Thus, a bond with a five-year duration could lose roughly 5% in value. (U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.)

Build a ladder

Bond laddering is a buy-and-hold strategy that could also help cushion the potential effects of rising rates. This process puts your money to

work systematically, without trying to predict rate changes and time the market.

Buying individual bonds provides some certainty, because investors know how much they will earn if they hold a bond until maturity, unless the issuer defaults. A ladder is a portfolio of bonds with maturities that are spaced out at regular intervals over a certain number of years. When short-term bonds from the low rungs of the ladder mature, the funds are reinvested at the top end of the ladder. As interest rates rise, investors may be able to increase their cash flow by capturing higher yields. A ladder may also help insulate bond portfolios from volatility, because higher yields on new bonds may help offset any paper losses on existing holdings.

Bond ladders may vary in size and structure, and could include different types of bonds depending on an investor's time horizon, risk tolerance, and goals. Individual bonds are typically sold in minimum denominations of \$1,000 to \$5,000, so creating a bond ladder with a sufficient level of diversification might require a sizable investment.

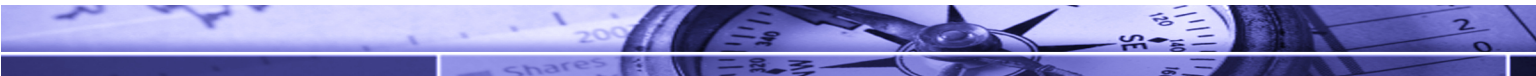
Rise with rates

Adding a floating-rate component to a bond portfolio may also provide some protection against interest-rate risk. These investments (long offered by U.S. corporations) have interest payments that typically adjust based on prevailing short-term rates.

The U.S. Treasury started issuing floating-rate notes with two-year maturities in January 2014. Investors receive interest payments on a quarterly basis. Rates are tied to the most recent 13-week Treasury bill auction and reset weekly, so investors are paid more as interest rates rise and less as they fall.

Note: Bonds redeemed prior to maturity could be worth more or less than their original cost, and investments seeking to achieve higher yields also involve a higher degree of risk. Interest payments are taxed as ordinary income. Treasury bond interest is subject to federal income tax but exempt from state and local income taxes.





Americans on the move

Americans are picking up and moving again as the recession fades, personal finances improve, and housing markets recover. Counties in Florida, Nevada, and Arizona had larger influxes of people, while some counties in Illinois, Virginia, New York, and California saw more people moving out. (Source: The Pew Charitable Trusts, Americans Are on the Move--Again, June 25, 2015, www.pewtrusts.org)

Cost of Living: Where You Live Can Affect How Rich You Feel

Do you find yourself treading water financially even with a relatively healthy household income? Even with your new higher-paying job and your spouse's promotion, do you still find it difficult to get ahead, despite carefully counting your pennies? Does your friend or relative halfway across the country have a better quality of life on less income? If so, the cost of living might be to blame.

The cost of living refers to the cost of various items necessary in everyday life. It includes things like housing, transportation, food, utilities, health care, and taxes.

Single or family of six?

Singles, couples, and families typically have many of the same expenses--for example, everyone needs shelter, food, and clothing--but families with children typically pay more in each category and have the added expenses of child care and college. The Economic Policy Institute (epi.org) has a family budget calculator that lets you enter your household size (up to two adults and four children) along with your Zip code to see how much you would need to earn to have an "adequate but modest" standard of living in that geographic area.

What areas have the highest cost of living? It's no secret that the East and West Coasts have some of the highest costs. According to the Council for Community and Economic Research, the 10 most expensive U.S. urban areas to live in Q3 2015 were:

Rank	Location
1	New York, New York
2	Honolulu, Hawaii
3	San Francisco, California
4	Brooklyn, New York
5	Orange County, California
6	Oakland, California
7	Metro Washington D.C./Virginia
8	San Diego, California
9	Hilo, Hawaii
10	Stamford, Connecticut

Factors that influence the cost of living

Let's look in more detail at some of the common factors that make up the cost of living.

Housing. When an area is described as having "a high cost of living," it usually means housing costs. Looking to relocate to Silicon Valley from the Midwest? You better hope for a big raise; the mortgage you're paying now on your

modest three-bedroom home might get you a walk-in closet in this technology hub, where prices last spring climbed to a record-high \$905,000 in Santa Clara County, \$1,194,500 in San Mateo County, and \$690,000 in Alameda County. (Source: *San Jose Mercury News*, Silicon Valley Home Prices Hit Record Highs, Again, May 21, 2015)

Related to housing affordability is student loan debt. Student debt--both for young adults and those in their 30s, 40s, and 50s who either took out their own loans, or co-signed or borrowed on behalf of their children--is increasingly affecting housing choices and living situations. For some borrowers, monthly student loan payments can approximate a second mortgage.

Transportation. Do you have access to reliable public transportation or do you need a car? Younger adults often favor public transportation and supplement with ride-sharing services like Uber, Lyft, and Zipcar. But for others, a car (or two or three), along with the cost of gas and maintenance, is a necessity. How far is your work commute? Do you drive 100 miles round trip each day or do you telecommute? Having to buy a new (or used) car every few years can significantly impact your bottom line.

Utilities. The cost of utilities can vary by location, weather, usage, and infrastructure. For example, residents of colder climates might find it more expensive to heat their homes in the winter than residents of warmer climates do cooling their homes in the summer.

Taxes. Your tax bite will vary by state. Seven states have no income tax--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, property taxes and sales taxes can vary significantly by state and even by county, and states have different rules for taxing Social Security and pension income.

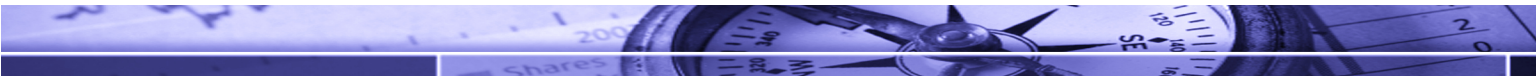
Miscellaneous. If you have children, other things that can affect your bottom line are the costs of child care, extracurricular activities, and tuition at your flagship state university.

To move or not to move

Remember The Clash song "Should I Stay or Should I Go?" Well, there's no question your money will go further in some places than in others. If you're thinking of moving to a new location, cost-of-living information can make your decision more grounded in financial reality.

There are several online cost-of-living calculators that let you compare your current location to a new location. The U.S. State Department has compiled a list of resources on its website at state.gov.





Can You Get to a Million Dollars?



In trying to accumulate \$1 million (or any other amount), you should generally consider how much you have now, how much you can contribute in the future, how much you might earn on your investments, and how long you have to accumulate funds. But remember, there are no guarantees—even when you have a clearly defined goal. For example, the market might not perform as expected, or you may have to reduce your contributions at some point.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Review your progress periodically and be prepared to make adjustments when necessary.

Often in life, you have investment goals that you hope to reach. Say, for example, you have determined that you would like to have \$1 million in your investment portfolio by the time you retire. But will you be able to get there?

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Current balance--your starting point

Of course, the more you have today, the less you may need to contribute to your investment portfolio or earn on your investments over your time horizon.

Time (accumulation period)

In general, the longer your time horizon, the greater the opportunity you have to accumulate \$1 million. If you have a sufficiently long time horizon and a sufficiently large current balance, with adequate earnings you may be able to reach your goal without making any additional contributions. With a longer time horizon, you'll also have more time to recover if the value of your investments drops. If additional contributions are required to help you reach your goal, the more time you have to target your goal, the less you may have to contribute.

The sooner you start making contributions, the better. If you wait too long and the time remaining to accumulate funds becomes too short, you may be unable to make the large contributions required to reach your goal. In such a case, you might consider whether you can extend the accumulation period--for example, by delaying retirement.

Rate of return (earnings)

In general, the greater the rate of return that you can earn on your investments, the more likely that you'll reach your investment goal of \$1 million. The greater the proportion of the investment portfolio that comes from earnings, the less you may need to contribute to the portfolio. Earnings can benefit from long time horizons and compound rates of return, as returns are earned on any earlier earnings.

However, higher rates of return are generally associated with greater investment risk and the possibility of investment losses. It's important to choose investments that meet your time horizon and tolerance for risk. And be realistic in your assumptions. What rate of return is realistic given your current asset allocation and investment selection?

Amount of contributions

Of course, the more you can regularly contribute to your investment portfolio (e.g., monthly or yearly), the better your chances are of reaching your \$1 million investment goal, especially if you start contributing early and have a long time horizon.

Contributions needed

Now that the primary factors that affect your chances of getting to a million dollars have been reviewed, let's consider this question: At a given rate of return, how much do you need to save each year to reach the \$1 million target? For example, let's assume you anticipate that you can earn a 6% annual rate of return (ROR) on your investments. If your current balance is \$450,000 and you have 15 more years to reach \$1 million, you may not need to make any additional contributions (see scenario 1 in the table below); but if you have only 10 more years, you'll need to make annual contributions of \$14,728 (see scenario 2). If your current balance is \$0 and you have 30 more years to reach \$1 million, you'll need to contribute \$12,649 annually (see scenario 3); but if you have only 20 more years, you'll need to contribute \$27,185 annually (see scenario 4).

Scenario	1	2
Target	\$1,000,000	\$1,000,000
Current balance	\$450,000	\$450,000
Years	15	10
ROR	6%	6%
Annual contribution	\$0	\$14,728

Scenario	3	4
Target	\$1,000,000	\$1,000,000
Current balance	\$0	\$0
Years	30	20
ROR	6%	6%
Annual contribution	\$12,649	\$27,185

Note: This hypothetical example is not intended to reflect the actual performance of any investment. Actual results may vary. Taxes, fees, expenses, and inflation are not considered and would reduce the performance shown if they were included.

Mission Point Planning Group

Anthony L. Bucci
President
3912 12 Mile Rd
Berkley, MI 48072
248-504-6015
anthony@missionpointplan.com
www.missionpointplan.com

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How long will I have to pay for private mortgage insurance?

It depends. There are generally two ways that private mortgage insurance (PMI) can be removed from your mortgage loan. The first is if you request PMI cancellation directly from your lender. The second is through termination by your lender.

You can request PMI cancellation directly from your lender once you have reached the date when the principal balance of your mortgage is scheduled to fall to 80% of the original value of your home. You can find this date on the PMI disclosure form that was given to you when you first obtained your mortgage. The cancellation request can be made earlier if you have made additional mortgage payments that have reduced your principal balance to 80% at an earlier date. Your lender may also require you to meet certain other criteria in order to cancel your PMI, such as certification that there are no subordinate liens on the home and evidence that the property has not declined below the original value.

If you don't request PMI cancellation directly from your lender, your PMI could still be removed from your loan if it is terminated by

your lender. Your lender is required to terminate PMI on the date when the principal balance on your loan is scheduled to reach 78% of the original value of your home or once you reach the midpoint of your loan's amortization schedule (e.g., year 15 of a 30-year loan), whichever occurs first.

Unfortunately, some mortgage companies don't always follow the rules pertaining to PMI termination and continue to collect PMI premiums from borrowers beyond the termination date. As a result, many borrowers find themselves paying unnecessarily for PMI. (Source: Private Mortgage Insurance Cancellation and Termination, Consumer Financial Protection Bureau Compliance Bulletin, August 2015) If you think you have reached, or are about to reach, the point in your loan where PMI cancellation or termination is a possibility, you should contact your mortgage lender for more information.

Keep in mind that the above rules regarding PMI apply to borrowers who are current on their loans and apply only to conventional mortgage loans closed on or after July 29, 1999.

