Market Update

November 2019

Important Topic: Reverse Mortgages

Historically the term reverse mortgage has had a bad stigma associated with it in regards to fees and taking advantage of the elderly. We recently sat down with a representative at Home Equity to find out the details of a reverse mortgage.

A reverse mortgage is a loan secured against the value of your home. Unlike a traditional line of credit or conventional mortgage, there are no monthly payments, rather the reverse, you receive payments when you wish, increasing the loan over time.

You maintain full ownership of your home and can use the loan any way you wish – monthly income, one time payments for renovations or for other expenses, to help family members, travel etc.

When the home is sold the loan and all of its interest payments are owed and paid from the proceeds of the sale. The fees to set this up are about $1,500 and the rate you will pay is approximately 2.5% higher than a typical home equity line of credit.

It seems to us that this product has cleaned up it's act and could be a good option for someone who can not access a standard home equity line of credit.

Line of Credit

One can accomplish the same goal using a standard line of credit on your home (LOC or HELOC). One establishes the loan through a bank or credit company and then can access the loan to provide all means of cash flow (as above), including funds needed to pay the interest. If one does not use it, there are no charges and no interest.

Importantly, a reverse mortgage rate is usually 2.5% higher than a Home Equity Line of Credit. So why get a reverse mortgage rather than a HELOC?

1. If you are no longer working and therefore have little income, the banks may not be prepared to offer a HELOC
2. Once established a reverse mortgage does not mature (though the rate changes) and therefore does not need to be renewed and cannot be taken away until the home is sold.

Summary

I continue to encourage all home owners to get a HELOC while they are still working, as the large banks may not set one up if you do not have employment income to support it. The ability to write a cheque, suddenly and for a large amount, is a flexibility that should never be underestimated. Life throws curve balls – positive and negative – and one should always have the financial flexibility to respond fully and immediately.

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If one finds, later in life, the need to access the capital that is tied up in one's home, a higher interest reverse mortgage may be the only practical alternative (other than selling one's home).

If you have any questions about these products please let us know.

November proved to be a positive month with many market indices reaching new all-time highs. Markets were led by gains in the US and Canadian markets. Most markets were up with the exception being the falling real estate sector.

While the economy did advance, there was some concerning news. Investors however, continued to shrug these off seemingly convinced that the central banks would lower interest rates if needed. The thinking is that good news is good news, and bad news means that interest rates will be adjusted so that the good news can resume and continue. While this thinking is enjoyable – everything will work out in the end - I am concerned that it is a tad disconnected from reality. A change to a more negative market outlook is unavoidable as volatility is the only constant.

Overall earnings (profits) have been above expectations, providing some justification for the higher stock prices.

And year-to-date, the markets have remained quite strong, posting attractive gains.

Looking forward, we believe the economy has stabilized, political uncertainty and volatility remains high (and likely will for the foreseeable future), and inflation remains benign.

As a result, we are neutral in the short term, but positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the Month, the bond market was up 0.5%, the Canadian market was up 3.0%, the US market was up 4.8%, International markets were up 1.2%, the Emerging markets were up 1.5%, the Real Estate market was down 1.0% and the preferred market was up 1.0%. (Reuters 11/30/19)

Year-to-date, the bond market is up 8.3%, the Canadian market is up 20.7%, the US market is up 24.0%, International markets are up 17.0%, the Emerging markets are up 7.3%, the Real Estate market is up 21.5% and the preferred market is flat. (Reuters 11/30/19)

Have a great month and let us know if there is anything we can do for you,

Meir

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