

FINANCIAL FEATURE



## A House Is More Than Just a Place to Call Home

[By Mike Young]

Owning a house can be one of your best tools for creating wealth. A house is a place to live and work, but it can also be an instrument for tax deductions, asset diversification, leverage, wealth accumulation, wealth transfers, and charitable giving.

A house is more than just a place to call home. A home provides a place to raise a family, enjoy hobbies, socialize, sleep, relax, and more. Your sense of home comes from the experience you have living in your house, but it is not the house itself. A house is the physical shelter, the wood or brick, the shingles, the windows, and the doors. Many of us equate the personal experience of home with the physical house. The ability to separate house and home makes it possible to view one's house as a tool for developing and managing wealth. This article explores the role of the house in the creation of wealth.

From 2001 to 2004, the average US stock portfolio dropped 34% in value, while the average house appreciated 21%. This dramatic shift moved wealth from the more traditionally managed world of stocks and mutual funds to the less traditionally understood world of house equity. This period marks a tipping point in our awareness that house equity may play a larger role in the dreams, goals, and aspirations that financial goals often support.

Today the market is moving again, seeking balance, testing the limits of new products, new credit scoring models, and the new liquidity needs of the market. These movements up and down create

opportunities for those that understand the impact of their borrowing decisions over time.

House equity — the net value of a house-related investment — is the most common form of wealth in the United States today. For many of us, it is the first step toward wealth development. Options for managing wealth in a house can be very confusing, yet that wealth as a percentage of your total assets may now account for a huge proportion of your total net worth.

While your house may be your largest asset, your mortgage (or lack of a mortgage) may be your greatest liability. Trying to manage your assets without learning to manage your liabilities can be like heating your house with the windows wide open.

Imagine — during your entire life you will borrow money you want but don't have, and lend (invest) money you have but don't need. Your entire financial life will act as a record of the decisions you made to borrow and lend money over your lifetime. Understand this simple truth, and you may avoid the major problems most consumers face. Like interest, problems typically compound over time.

You should use your house as a tool for

protecting current wealth and creating new wealth. You will learn that "location, location, location" is no longer just about the physical location of the house. It now incorporates the location of your house wealth as well. Your decision to borrow is often based on a need for cash you don't have, or a desire for wealth that comes from using other people's money that could create new wealth for you.

Human physiologist Abraham Maslow proposed that our needs are satisfied in a particular order: first we satisfy our physiological needs (for food, water, and shelter); then we focus on safety and security; next we begin to focus on family and community, followed by personal ego and self-esteem; and finally comes self-actualization.



The house helps us provide for our physiological needs, our safety and security needs, our family and social needs, and, to

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some extent, even our self-esteem (since house ownership reflects recognition and status). The house creates a foundation for personal growth, and it can be the primary foundation for your personal wealth development as well.

You can learn more about the house as a wealth creation tool and find a 7-step Borrow

Smart Technique to help you retire rich in the book *Borrow Smart, Retire Rich* by Todd Ballenger and Mike Young.

### **About the Author**

Mike Young is a certified liability advisor (CLA), a member of the National Institute of Financial Education (NIFE), and the co-author of *Borrow*

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