

The Stock Market & Real Estate

Would you rather: invest \$100,000 in the stock market or purchase a \$500,000 home with a down payment of \$100,000?

This of course depends on what your goals and plans are. But in this situation I look at the sole purpose of increasing your net worth. This hypothetical situation can help when approaching big decisions such as how much to put down on a home, how much to set aside, and how much to save for future goals. It may also help one decide if real estate is a comparable investment for you or if the stock market makes more sense based on your knowledge and comfort. Of course, you can also choose to balance out both real estate and the stock market for your finances.

Please note that this is a hypothetical scenario looking at past data. The future holds different data that cannot be predicted and may vary widely from the hypothetical scenario.

Below you'll find four graphs which reflect market returns, U.S. and Utah real estate returns.

Average: 10.03% Median: 12.59%

1975	31.55%	1985	26.33%	1995	34.11%	2005	3.00%	2015	-0.73%
1976	19.15%	1986	14.62%	1996	20.26%	2006	13.62%	2016	9.54%
1977	-11.50%	1987	2.03%	1997	31.01%	2007	3.53%	2017	19.42%
1978	1.06%	1988	12.40%	1998	26.67%	2008	-38.49%	2018	-6.24%
1979	12.31%	1989	27.25%	1999	19.53%	2009	23.45%	2019	28.88%
1980	25.77%	1990	-6.56%	2000	-10.14%	2010	12.78%	2020	16.26%
1981	-9.73%	1991	26.31%	2001	-13.04%	2011	0.00%	2021	26.89%
1982	14.76%	1992	4.46%	2002	-23.37%	2012	13.41%	2022	-19.44%
1983	17.27%	1993	7.06%	2003	26.38%	2013	29.60%		
1984	1.40%	1994	-1.54%	2004	8.99%	2014	11.39%		

S&P 500 From 1975 to 2022

Average: 4.26% Median: 5.34%

1975	NO DATA	1985	NO DATA	1995	1.92%	2005	14.17%	2015	4.55%
1976	NO DATA	1986	NO DATA	1996	2.24%	2006	6.81%	2016	5.08%
1977	NO DATA	1987	NO DATA	1997	3.03%	2007	-1.93%	2017	5.79%
1978	NO DATA	1988	7.37%	1998	5.61%	2008	-8.83%	2018	5.79%
1979	NO DATA	1989	6.14%	1999	6.96%	2009	-9.45%	2019	3.45%
1980	NO DATA	1990	1.9%	2000	8.72%	2010	-2.62%	2020	6.05%
1981	NO DATA	1991	-1.32%	2001	8.02%	2011	-3.75%	2021	17.08%
1982	NO DATA	1992	0.53%	2002	8.04%	2012	1.25%	2022	TBD
1983	NO DATA	1993	1.42%	2003	9.37%	2013	9.60%		
1984	NO DATA	1994	2.65%	2004	12.50%	2014	6.57%		

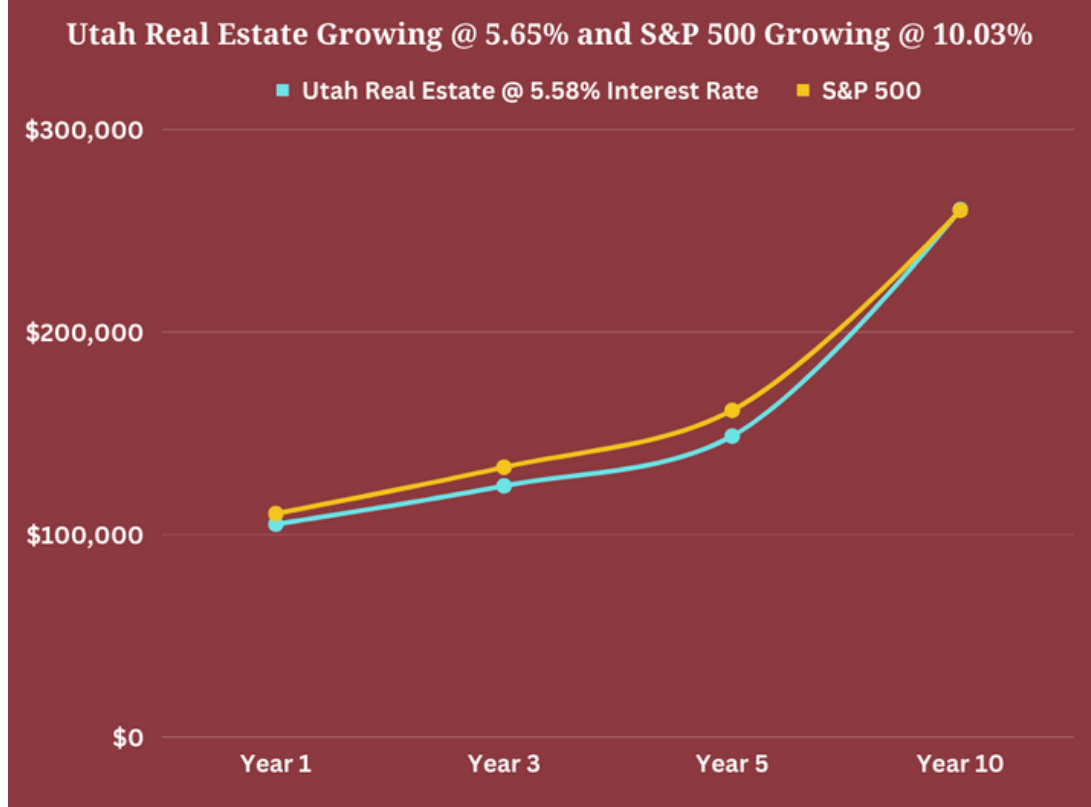
House Price Index for U.S.

Average: 5.65% Median: 5.69%

1975	NO DATA	1985	2.39%	1995	11.75%	2005	9.60%	2015	5.57%
1976	10.22%	1986	2.17%	1996	8.67%	2006	15.74%	2016	7.22%
1977	15.36%	1987	-2.25%	1997	6.13%	2007	12.23%	2017	8.63%
1978	18.02%	1988	-2.59%	1998	5.12%	2008	-1.24%	2018	9.24%
1979	13.72%	1989	1.34%	1999	1.21%	2009	-7.89%	2019	7.45%
1980	4.30%	1990	3.24%	2000	1.01%	2010	-6.21%	2020	7.39%
1981	6.87%	1991	5.84%	2001	4.34%	2011	-5.35%	2021	22.19%
1982	1.46%	1992	6.51%	2002	1.32%	2012	1.57%	2022	TBD
1983	2.93%	1993	10.92%	2003	1.67%	2013	6.87%		
1984	-0.13%	1994	16.63%	2004	3.14%	2014	5.81%		

House Price Index for Utah





There are some assumptions I am providing to attempt to make a fairer comparison. In reality we are comparing 'apples to oranges.'

Assumptions:

- I assume revenue and expenses for real estate break even.
- No investment fees (or investment fees match the real estate cash flow loss)
- I use a \$100k investment vs. a \$500k real estate property.
- Tax loss harvesting of stock and depreciation of real estate are equal.
- Since Utah's returns over the past 40 years has been higher than the national average, then I will not include the national average in the comparison (4th chart).
- Interest rates vary greatly across the last 40 years so the goal is to show a breakeven interest rate for real estate.
- \$100k goes into the rental property as a down payment with \$400k being leveraged.
- Both investments are compounded annually.

Let's say you are 25 years old and receive an inheritance of \$100,000! You can invest in a real estate property, or the stock market. If your goal was to increase your net worth as much as possible, then I would recommend analyzing the following (with the assumptions on the left):

- Can you get an interest rate lower than 5.58% on your mortgage?
- Will you be in the home for at least 10 years?
- Is the house in good shape and won't require large renovations in the near future?
- Are you in a higher tax bracket? Will real estate losses help much? Your income could be too high or too low to benefit you on taxes.
- Are you living in the house or renting it out?

The power of leveraging real estate (by borrowing from a bank at low interest) is what makes real estate attractive when compared to the volatility of the stock market.

Additional questions to ask yourself:

- Do I prefer saving away into the market or managing a real estate property?
 - There is much less work with saving in the stock market as it only requires automated and consistent savings, technology can often do the rest of the work for you.
 - Managing real estate requires working with tenants, bookkeeping, maintenance & repairs, research, legal documents, insurance, taxes, and the possibility of no payments on the property for a month or more at a time.
- Can I stomach the volatility of the market when seeing my account values decrease by 20%, 30%, or even 40%?
- Do I prefer owning tangible property that I can see and feel and work on?
- Am I okay with owning stocks that feel invisible and could increase anxiety based on looking at the market each day?
- Am I okay with an aging home that will require more work the older it becomes?
- Am I okay with the risk of an owning one or two real estate properties when compared to diversification by owning hundreds of different stocks?
- How do I want to spend my time? Will I be fulfilled spending a few hours each week or month or real estate? Or would I be more fulfilled spending that time on something else while I save into the market?

In the graphs at the beginning, a break even point for the investment in the S&P 500 compared to the real estate property is based on an interest rate of 5.58%. Hypothetically, your net worth would be the same after 10 years whether you invested in real estate or the stock market.

In reality, each personal situation varies widely. Interest rates can vary, home prices can vary by state and even neighborhood, remodeling and repairs certainly affect the outcome, and timing of the investment will play a large factor as well.

In summary, the lower your interest rate the better chance your leveraged real estate leads to greater wealth. Investing in the S&P 500 takes little to no effort while real estate demands ongoing attention with time, skills, and knowledge.

Real estate and stock market investments in retirement is a whole different story. They both can help create a stable and efficient retirement if done right. If possible I recommend a balanced approach that provides the growth of the stock market with the stability of real estate income in order to maintain a flexible financial life.

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