

ALPINE PERSPECTIVES

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Should You Prepay Your Home Mortgage?

The correct answer? It depends (note: we are not addressing refinancing, rather periodic principal prepayments). Each person's situation is dependent on a number of different personal and market factors. Here is an illustration to illustrate the concept. Assumptions for this illustration: the mortgage is a fixed rate; the home owner does not possess the means to completely pay off the mortgage. Assume a 6% fixed rate mortgage, the after tax mortgage rate will be about 4%. A market investment that has an after tax return of greater than 4% would be a better investment than using the funds to prepay the mortgage. A well diversified, risk managed investment portfolio may generate returns sufficient to defer prepaying your

mortgage. With the state of the economy in flux and unemployment expected to increase, adding the amount you would prepay to an emergency fund probably makes more sense. Once you send the prepayment to the mortgage holder you forfeit the access to those funds unless you borrow against your home's equity. A home equity line of credit, or a home equity loan interest rate will be about 6% to 9% depending on your credit score. This would be an additional opportunity cost rather than being able to access the funds if they were held in an investment account. The current credit and housing market turmoil have resulted in a number of lenders reducing or eliminating home equity lending. Some may argue

that we are ignoring the potential increase in the value of the home in this illustration. I would advance that long term home price appreciation, when including the cash expenses of home ownership, is not as advantageous most people believe. Consider: would you invest in a market instrument that averaged a 9% return over a 30 year period and pay \$710,000 in fees? This scenario is illustrated from an article in the Wall Street Journal. See the chart below. Home ownership may be reverting back to its original use...a place of utility (live, eat, raise a family) rather than an instrument of speculation.

The Costs of Buying a Home Over 30 Years

	2007
Purchase Price (typical single-family home)	\$290,000
Down payment	\$58,000
Principal	\$232,000
Interest @ 6.41%; total = \$291,000 (after tax: 33% bracket)	\$195,000
Taxes & Insurance (\$6,000 / year)	\$180,000
Maintenance (\$300 / month)	\$108,000
Major Repairs & Improvements	\$300,000
Total Costs	\$1,073,000

Note: 6.41% was the average mortgage-interest rate in 2006; the national median home price was \$222,000.
Source: Office of Federal Housing Enterprise Oversight

How to Avoid Getting “Madoffed”

What on earth does a person do to avoid getting eaten by a shark like Bernard Madoff? This guy was the proverbial “wolf in sheep’s clothing” feeding on the timid and trusting as well as the “sophisticated” fund manager. Mr. Madoff actually started out with a legitimate investment management business but soon realized that he could possibly lose clients if the portfolio returns were anything less than steady and stellar. To keep from losing clients he would adjust his clients’ statements to show more assets than actually existed. At some point, he found it easier to adjust statements than to make money in the market so he started an all out fraud and started stealing money for his own uses. Mr. Madoff was able to perpetrate this scheme by cleverly positioning himself as an exclusive asset manager that only the privileged could gain access to. He also had in served as chairman of NASDAQ stock market and had a “legitimate” business clearing stock market transactions. People and organizations put their faith in him because his “returns” were exceptional and wanted to believe that they could place their money with such a

successful and exclusive adviser. Unfortunately this is a story that repeats itself over and over again. What distinguishes this fraud from others is the size...somewhere around \$50 billion. Mr. Madoff would not have been able to “Ponzi” his first dollar if his clients had insisted on a basic tenet of adviser due diligence...an independent and unrelated custodian that would have custody of client assets. Independent custodians provide clients with access to their accounts and statements reflecting the balances and positions. Also, be highly suspicious of guaranteed returns. It is unethical and legally wrong for a registered investment adviser to promise any level of return. Legitimate investment advisers are registered. Anyone who gives investment advice on more than an incidental basis must be registered with a state regulator as an investment adviser and/or with the Securities and Exchange Commission. Registered Investment Advisers (RIAs) are legally compelled to provide every client with their regulatory form ADV as evidence of their registration. Another bazaar

aspect of the Madoff case is the auditor of “Bernard Madoff Securities Company”, Friehling &

Horowitz, an auditor operating out of a 13-by-18 foot location from a storefront office in the Georgetown Office Plaza in New City, sandwiched between a pediatrician’s office and another medical office. An office for the Rockland County Bar Association is also in the building. The auditor was paid \$14,500 a month by Madoff to sign off on the financial statements. Most legitimate custodians will have recognizable auditors that will, when requested, provide legitimate audited financial statements of the custodian.



The original—Charles Ponzi, mug shot, circa 1910.

**Common
Sense Corner:
General
Topics For
Your Every
Day Living**

Worms, viruses, spyware, and other nasties...

Do you remember back in the day when you could visit a neighbor down the street and leave your house unlocked? Now we have multiple door locks, alarm systems, and motion detectors. Do you remember not long ago when you could log onto the internet and visit web sites without worrying about your computer being infected? Now we have firewalls, antivirus, and antispyware programs to protect our computers from electronic demons. I thought I would describe some of the more common computer afflictions that can cause electronic heartburn.

Viruses: A virus is programming code that is typically disguised as something else that usually causes an unexpected and undesirable event. Viruses are usually transmitted via email containing a picture, files to be reviewed, or even security updates.

Spyware: Spyware or adware are programs that collect data about our web surfing habits and send that information to a remote computer while we are online. The general difference is that adware programs are usually disclosed to the user while spyware is not. There are even 'drive-by downloads' that install the programs while you are surfing the web, simply by going to a certain page or site. They use up memory which can slow down our computer, and they can often interfere with other programs because they have been poorly written. If a couple of spyware programs are

trying to record and send information, chances are you will notice your computer running slower, and your Internet connection will seem very slow.

Worms: Similar to a virus, a worm is a *self-replicating* program that does not necessarily alter files, but resides in active memory and duplicates itself. Worms use parts of the operating system that are usually invisible to the user. It is not uncommon for worms to go unnoticed until their replication eats up system resources, slowing or stopping other tasks.

Trojans: A Trojan (or Trojan horse) is a malicious program contained inside apparently harmless programming. It can get control and do its chosen form of damage, such as ruining your hard disk or allowing someone to take over your computer remotely. In one case, a Trojan was in a program that was supposed to find and destroy computer viruses. A Trojan may be found by antivirus software, but not always. A Trojan can also be put onto our computer if we go to a malicious Web site. When the site is loaded, a series of pop-under pages can be loaded by another Web host, and one of those pop-unders can (cont. on next page)



Worms, viruses, spyware, and other nasties... (cont.)

**Common
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download a file to our computer. Once it gets on our computer, this particular Trojan redirects search engines such as google.com to a different search site. If your computer is infected, you may not even realize it. One clue is when a whole bunch of pornography and gambling popups start appearing. Use a quality antispymware/antivirus/firewall software service to protect your valuable files and applications. Avoid opening email and attachments from senders you do not recognize. Get the latest updates/patches from your operating system provider and application vendors.

When Albert Einstein died, he met three New Zealanders in the queue outside the Pearly Gates. To pass the time, he asked what were their IQs. The first replied 190. "Wonderful," exclaimed Einstein. "We can discuss the contribution made by Ernest Rutherford to atomic physics and my theory of general relativity". The second answered 150. "Good," said Einstein. "I look forward to discussing the role of New Zealand's nuclear-free legislation in the quest for world peace". The third New Zealander mumbled 50. Einstein paused, and then asked, "So what is your forecast for the budget deficit next year?" —The Economist, June 13th 1992, p. 71).