The Monthly Mu$e

Ideas and concepts to consider

Ross E. DeValois, CFP®
MidAmerica Securities Management Co.
404 E. College St, Suite 406 • Iowa City • IA • 52240
319-337-9842 • 800-896-4987
devalois@midamsecurities.com • www.midamsecurities.com

Greetings,

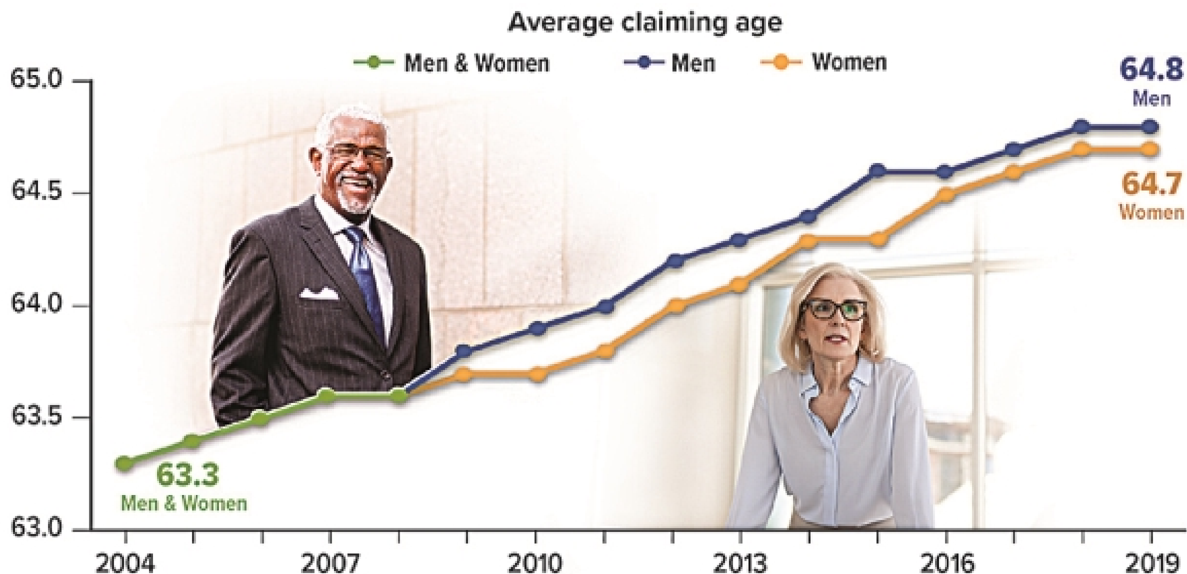
Spring has arrived! We can now enjoy the sun as we wrap up tax season and start to repair our lawns for the upcoming summer months. Here's to a happy and hopefully warm spring, as always don't hesitate to give the office a call if you have any questions or to schedule a review appointment. We will accommodate your preference for either a virtual or in-person meeting with appropriate social distancing and masks.

Sincerely,

Ross

More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

Real Estate for Income and Diversification

An estimated 145 million Americans own real estate investment trusts (REITs) in their retirement accounts and other investment funds.[1] The primary appeal of REITs is the potential for a consistent income stream and greater portfolio diversification. Of course, like all investments, REITs also have risks and downsides.

Pooled Property Investments

An equity REIT — the most common type of REIT — is a company that uses the combined capital of a large number of investors to buy and manage residential, commercial, and industrial income properties. A REIT may focus on a specific type of property, but REIT properties in general might range from shopping malls, apartment buildings, and medical facilities to self-storage facilities, hotels, cell towers, and timberlands. Equity REITs derive most of their income from rents.

Under the federal tax code, a qualified REIT must pay at least 90% of its taxable income each year in the form of shareholder dividends. Unlike many companies, REITs generally do not retain earnings, so they may provide higher yields than some other investments, which might be especially appealing in the current low-interest environment. In January 2021, equity REITs paid an average dividend of 3.55%, more than double the 1.55% average dividend paid by stocks in the S&P 500 index.[2–3]

You can buy shares in individual REITs, just as you might buy shares in any publicly traded company, or you can invest through mutual funds and exchange-traded funds (ETFs).

Income vs. Volatility

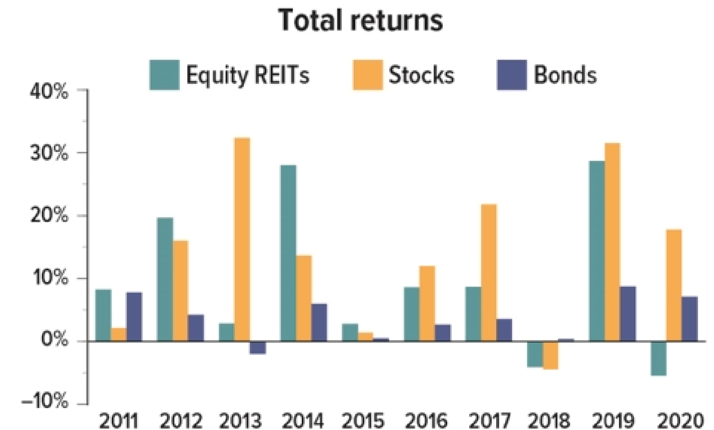
Equity REITs are effective income-generating assets, but share prices can be sensitive to interest rates, partly because companies often depend on debt to acquire rent-producing properties, and interest rates can affect real estate values. Also, as rates rise, REIT dividends may appear less appealing to investors relative to the stability of bonds offering similar yields.

For buy-and-hold investors, the income from REIT dividends may be more important than short-term share-price volatility. Moreover, REIT share prices do not always follow the stock or bond markets, making them a helpful diversification tool (see chart).

While REITs are traded on the stock market, they are in some respects a unique asset class with characteristics of both stocks and bonds. So holding REITs not only may diversify your stock holdings but might also broaden your approach to asset allocation. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

A Class of Their Own

Over the last decade, equity REITs have performed very differently than stocks and bonds. REITs were slower than stocks to recover from the early 2020 bear market, which could make their lower valuations and higher yields appealing for long-term investors.



Sources: Nareit, 2021; S&P Dow Jones Indices, 2021; Morningstar, 2021. Equity REITs are represented by the FTSE Nareit All Equity REIT index, U.S. stocks by the S&P 500 total return index, and bonds by the Bloomberg Barclays U.S. Aggregate Bond TR index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Real Estate Risks

There are inherent risks associated with real estate investments and the real estate industry that could adversely affect the financial performance and value of a real estate investment. Some of these risks include a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies.

The return and principal value of all investments, including REIT shares, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) Nareit, 2021 (2019 data for REIT ownership)

3) S&P Dow Jones Indices, 2021

Should You Convert Your Term Life to Permanent Life Insurance?

Term life insurance provides life insurance coverage for a specific time period (the term). The face amount of the policy is paid if you die during the term of the policy. When you live longer than the term of coverage, nothing is paid, as there is no cash surrender value. Permanent life insurance provides protection for your entire life, regardless of your age or health, as long as you pay the premium to keep the policy in force.

Usually, term life insurance costs less than permanent life insurance for the same amount of death benefit. Term policies often offer the opportunity to convert to permanent insurance. Here are some reasons why you might consider converting your term life insurance to permanent life insurance.

Your Health Has Changed

Since term life insurance is temporary coverage that will end after a number of years, your circumstances may have changed, warranting life insurance coverage for the rest of your life. Converting term life insurance to permanent life insurance does not require additional underwriting. This allows you to extend your life insurance coverage for the rest of your life without going through a medical exam. This fact is particularly important if your health has changed since the time you purchased the term policy.

Your Financial Circumstances Have Changed

You may have purchased term life insurance because it fit better into your budget. Now you may be able to afford the higher premium cost of a permanent life insurance policy that better fits your insurance needs.

You May Want Cash Value

Most permanent life insurance provides for the accumulation of cash value. Part of the premium goes toward the cost of the death benefit and related policy costs; another part goes toward building cash value. The interest and earnings grow tax deferred until you withdraw the funds and may be part of the income-tax-free death benefit when you die. With most cash-value life insurance, you can borrow against or take withdrawals from your cash-value account, although policy loans and withdrawals can reduce the death benefit.

You Want Funds to Pay for Final Expenses

Final expenses of a last illness and memorial and funeral costs could take quite a bite out of your assets, or worse, the assets of the loved ones you leave behind. You may want to convert some or all of your term life insurance to permanent insurance that can be used to pay for final expenses.

Questions to Ask

If you're thinking about converting your term life insurance to permanent, here are some questions to ask your insurer:

- Can my policy be converted?
- When must I decide to convert?
- What are my options? What types of permanent policies are available? Can I do a partial conversion?
- What will the premium cost?

You Want to Leave a Legacy

The tax-free death benefit of a life insurance policy may be a cost-effective way to leave an inheritance to your loved ones. Permanent life insurance can be available no matter when you die, as long as you've kept up with the premium payments.

You May Owe Estate Taxes

Federal estate taxes are owed on estate assets that exceed the federal estate tax exclusion ($11.7 million in 2021). In addition, several states have their own separate estate taxes and exemptions. Those you leave behind can use the death benefit of your life insurance to pay some or all of any applicable estate taxes after your death.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Withdrawals of the accumulated cash value, up to the amount of the premiums paid, are not subject to income tax. Loans are also free of income tax as long as they are repaid. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit, and could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Five Tips to Follow When Applying for a Mortgage

The housing market during the coronavirus pandemic has certainly been notable. Historically low interest rates resulted in record homebuying, even as housing prices escalated.[1]

Fortunately, the mortgage industry has been able to keep up with the pace of the real estate market by utilizing already existing technology. Homebuyers can search for lenders, compare interest rates, and apply for mortgages online. In addition, mortgage lenders are able to do alternative appraisals, perform safe home inspections, and conduct closings electronically.

Even though applying for a mortgage is much easier these days, navigating the world of mortgages — especially for first-time homebuyers — can be complicated. As a result, you'll want to keep the following tips in mind.

Check and maintain your credit. A high credit score not only may make it easier to obtain a mortgage loan but could potentially result in a lower interest rate. Be sure to review your credit report for inaccuracies. You may have to take steps to improve your credit history, such as paying your monthly bills on time and limiting credit inquiries on your credit report (which are made every time you apply for new credit).

Shop around. Be sure to shop around among various lenders and compare the types of loans offered, along with the costs and rates associated with those loans. Consider each lender's customer service reputation as well.

Get pre-approved for a loan. In today's hot housing market, it's essential to have a mortgage pre-approval letter in hand before making an offer. Obtaining a mortgage pre-approval letter lets you know how large a loan you can get. However, this isn't necessarily how much you can afford. Be sure to examine your budget and lifestyle to make sure that your mortgage payment — principal and interest as well as property taxes and homeowners insurance — is within your means.

Review your down-payment options. Though lenders prefer a down payment of 20% or more, some types of home loans allow down payments as low as 3%. A larger down payment can help you obtain a lower interest rate, potentially avoid paying for private mortgage insurance, and have smaller monthly payments.

Read the fine print. Before you sign any paperwork, make sure that you fully understand the terms of your mortgage loan and the costs associated with it. For example, if you are applying for an adjustable-rate mortgage, it's important to be aware of how and when the interest rate for the loan will adjust.

1) MarketWatch, September 5, 2020

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