

Lots of home equity? Get those “lazy assets” to work!

There's a term used in business to describe assets that aren't being put to use to create value: *lazy assets*. Inventory that's sitting around, for example, or business assets that aren't making any money. Lately, though, we're hearing the term used to describe home equity.

Think about it. If you're like most Canadians, a big chunk of your wealth is probably tied up in your home. You work hard at pounding down that debt. Cash flow may be tight, and you may not have much set aside in investments, but hey – you're building up wealth in your home, right? The problem with that thinking, of course, is that – despite years of disciplined mortgage payments – you don't have much to show for it. Your debt is going down, but you've got more and more of your wealth tied up in an asset that isn't really working for you.

A growing number of informed homeowners, however, are figuring out how they can enjoy their home, but put their lazy assets to work to build family wealth.

Let's imagine, for example, that – through years of mortgage payments and rising home values – you've managed to build up \$300,000 in equity in your home. That's a lot of money to have just sitting there. A trained mortgage planner can show you how to mine those lazy assets. Let's say that you pulled \$225,000 of your equity out of your home and invested it in a few rental properties with good cash flow. Your money is now helping to build wealth. Don't want to be a landlord? You could invest in some solid blue-chip stocks instead. The big bonus is in getting those lazy assets working for you. When you take out a mortgage for the purpose of investing, *the interest on your mortgage may be tax-deductible*. Now, the tax you save can be poured back into your mortgage – building your wealth even faster.

It no longer seems like a radical idea to use your home equity to pursue other financial goals. Mortgage planners, an elite group of mortgage brokers, are finding that homeowners are becoming more confident and more knowledgeable about how a mortgage fits with their overall financial plan. They know they can mine their home equity to finance a home renovation, for example, or to consolidate high-interest debt. They've earned that wealth, and they don't necessarily want to just sit on it; they know they get a tax deduction to invest, and so they're putting their wealth to work.

It's a trick that wealthy people have always known: you use your assets to buy other assets. For one thing, it's a way of spreading your wealth among different asset classes: you don't want to have all your wealth tied up in your home, which isn't the most liquid investment because you have to qualify and apply to a lender to take it out (or of course sell your home). You may have \$225,000 to comfortably take out now, but if home values decline, your wealth shrinks too. Moving those funds into more diversified investments can strengthen your overall financial picture. You can also increase your rate of return on your assets. Equity, of course, has a 0% return. Remember that if the housing market goes up, your home will appreciate regardless of how much or little equity you have in it.

An experienced mortgage planner can provide the guidance that is critical to the success of this investing strategy. Mortgage Architects only recommends it if two criteria are met: the homeowner has qualified advisors to oversee its investment, and the financial discipline to implement this kind of long-term plan. But for the right homeowner, getting those lazy assets to work is the key to wealth.

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