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Successfully Managing Equity

10 Myths You Need to Understand

By Douglas Andrew, Author of Missed Fortune

1. **Myth:** The Best way to pay off a home early is to pay extra principal on your mortgages.

Reality: No method of applying extra principal payments to your mortgages is the wisest or most cost effective way to paying off your house.

Strategy: Establish a liquid side fund to accumulate the funds required to pay off your mortgage, maintain flexibility, achieve substantial tax savings, and accumulate excess cash.

2. **Myth:** Home equity is liquid.

Reality: When you need it most, you may not have it. Home equity is usually non- liquid.

Strategy: Separate as much equity from your property as is feasible, positioning it in financial instruments that will maintain liquidity in the event of emergencies and conservation investment opportunities.

3. **Myth:** Home equity is a safe investment.

Reality: A home mortgaged to the hilt or totally free and clear provides the greatest safety for the homeowner.

Strategy: Separate as much equity from your home as feasible to achieve greater safety of principal and reduce the risk of foreclosure.

4. **Myth:** Home equity has a rate of return.

Reality: Equity grows as a function of real estate appreciation and a mortgage reduction; however, equity has no rate of return.

Strategy: Separate as much equity from your home as feasible in order to allow idle dollars to earn a rate of return.

5. **Myth:** Mortgage interest is an expense that should be eliminated as soon as possible.

Reality: Eliminating mortgage interest expense through traditional methods eliminates one of your best partners in accumulating wealth and financial security.

Strategy: use the difference between preferred and non-preferred interest expense to make interest work for you instead of against you.

6. **Myth:** Any and all debt is undesirable.

Reality: Some debt, when managed wisely, can be desirable.

Strategy: Use debt wisely as a positive lever for equity management purposes, conserving and compounding equity rather than consuming it.

7. **Myth:** Lower mortgages, resulting in lower payments, mean lower cost.

Reality: If you take opportunity costs into consideration, low mortgage-to-home-value ratios create tremendous hidden costs that increase the time needed to pay off a mortgage.

Strategy: Choose to incur deductible employment costs rather than non-deductible opportunity costs, since you have no choice but to incur one or the other.

8. **Myth:** Borrowing funds at a particular interest rate, then investing them at the same or lower interest rate, holds no potential growth returns.

Reality: You can earn a tremendous profit – regardless of the relative interest rates- by positioning your money in a tax favored, interest-compounding investment that earns a return greater than the real net cost of obtaining that money.

Strategy: Learn to apply the fundamental principal that highly profitable financial institutions use to accumulate and create wealth-arbitrage. Employ equity to earn a rate of return higher than the net cost of separating that equity. By doing so, you will create tremendous wealth and substantially enhance your net worth.

9. **Myth:** Equity in your home enhances your net worth.

Reality: Equity in your home does not enhance your net worth at all. Separated from your home, however, it has the ability to dramatically enhance your net worth over time.

Strategy: Set the stage to substantially increase your net worth. Refinance your home as often as feasible to separate equity and accelerate the process of accumulating the resources to cover all your debts.

10. **Myth:** The amount of equity you have in your home has no bearing on how marketable it is.

Reality: Your home may likely sell much more quickly and for a higher price if it has a high mortgage balance (low equity) – rather than a low mortgage balance (high equity) – especially in soft real estate markets.

Strategy: Always maintain as high a mortgage – with flexibility – on your home as feasible to keep it marketable at the highest possible price should you want to sell the property.