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Top of Mind

Leverage in the Neighborhood

The Fed lowered interest rates last month, as had been expected for quite some time. As a result, mortgage rates ticked down.

All else equal, a lower rate means you can afford more house. Why is that true?

Leverage. The word scares people: they think it's some high finance tactic employed exclusively by Wall Street traders. It's not...

You, and your whole neighborhood, are *probably* levered to residential real estate.

Let's say a first-time buyer puts down 10% on a \$400k house, which is normal. If the house appreciates 10% that buyer has made 100% on their purchase! How is that?

They put down \$40k. The house price goes up by 10%, which is also \$40k. They sell for \$440k, pay off the \$360k loan, and leave with \$80k - double their down payment.

What if the price falls 10%? Well, now they've lost 100% of their downpayment. Of course, without transaction fees & payments.

Residential real estate volatility isn't easily felt, nor do prices tend to frequently crash, so historically the use of leverage has helped buyers efficiently (and quickly) build equity.

I think that's one of the reasons buying a house feels like a good investment, along with being a forced monthly savings vehicle.

A house is usually your biggest asset, so it can be scary once you realize you're levered (5X +) on your largest chunk of net worth.

I'm not anti-mortgage, but you should really consider more than just the monthly payment. Callie had some thoughts too.

Best Listens This Month

 [Smarter Ways to Build Wealth](#)

 [New Tax Strategies in Bond Land](#)



It's About Slugging Percent, Not Batting Percent

Sports analytics are controversial. Purists say they've ruined the game; data-driven minds say it has made teams smarter.

A hedge fund manager at a breakfast I just attended said his son's coach is teaching him to swing for homers—not singles—because they deliver more value per at-bat.

He likened the coaching to why NBA teams favor threes and why O-lines earn more than QBs: passing yields more points per play.

Roger Federer (famous tennis guy) said something similar at a Dartmouth commencement speech. Despite winning just 54% of points, he won 80% of his matches.

Top traders bat 55%, comparable to Federer winning only 54% of points. It's not about frequency, it's about impact. It's about *slugging* percent, not batting percent. Uh okay - in plain speak, what's your point?

It's better to be very right on a few names than moderately correct on most - a strike out is fine. In fact, it's helpful. It's okay to be wrong and take losing trades, but it's not okay to stay wrong by sustaining deep losses.

I think the best reference on this topic in academic finance is [this paper](#) found in the Financial Analysts Journal. In short:

Over 64k global stocks were studied from 1990 to 2020, and most (about 56%) underperformed one-month U.S. Treasury bills. Nearly all net wealth creation came from just 2.4% of firms globally. 2.4% !!

Cut your losers early and often while letting your winners run. It's hard to accept defeat (often) but it's critical for long-term success.

That's what the S&P 500 does. If a stock outperforms it stays in, if not, she's gone. It's truly a ruthless investment process.

Of course, sometimes the team only needs a base hit or field goal to win. The same can be true in your investment portfolio.

In sports, the scoreboard tells you when you've won. In investing, the game never ends. So, swing big, lose fast, and let your winners run if you want to outperform.

It's very hard to adopt this mentality, most rather just hit singles and underperform.

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Personal Finance Bit “Lot Logic”

If you have a taxable brokerage (non-retirement) investment account, there is an efficient and inefficient way to access your money.

Travel Tip Using AI for Promo Codes

Despite the low success rate, using AI to quickly check for promo codes (especially for travel and live events) can yield big savings with minimal effort.

Collective Wisdom Articles, Tweets, & More

Why do lottery winners go broke? Are cash handouts effective? Should hotel points be taxed as income? The AmEx Platinum got a facelift.

Personal Finance Bit

STOCK PURCHASES	
DATE	SHARES PURCHASED
FEBRUARY	500
MARCH	200
APRIL	300
JUNE	400
SEPTEMBER	200
DECEMBER	500

There is a right and wrong way to withdraw money – certainly in retirement, but also from your non-retirement accounts.

Say you’ve been investing \$500/month into an S&P 500 ETF and now need cash for a down payment.

If you just hit sell, you could generate a big tax bill because of the FIFO method.

The heck is FIFO? First in First Out. That means the system will automatically sell the shares you’ve held the longest. So what?

When you buy shares monthly at different prices, each lot has varying gains.

For example, S&P 500 shares bought in October ‘22 (a market low) may have much higher gains (and embedded taxes) than shares bought in October ‘24.

FIFO sells the oldest shares first, which can trigger more tax. Instead, you can choose specific lots to sell and potentially reduce your tax bill – often dramatically.

Most brokerages let you do this by clicking a dropdown near the ticker to view purchase dates and lots. It’ll also show the unrealized gain/loss for each lot.

This route allows you to access the same amounts of money yet more efficiently. The tax savings can be even more pronounced with individual stocks.

Of course, there are other strategies to access your non-retirement savings, like netting gains/losses and spreading sales over multiple calendar years.

The FIFO intentions are good, but don’t settle because there is often a better route.

Travel Tip

I feel like airlines are notorious for offering flash deals while ticketing agencies are known for dumb fees.

However, if you’re like me and aggressively mute notifications, you likely won’t know of deals when you’re ready to book a trip or ways to skirt a ticket fee.

I’ve recently been asking ChatGPT to check for promo codes anytime I buy event tickets or book a trip, and it has done a surprisingly good job.

That said, probably 90% of the time the codes won’t work...

Maybe I’m overly stubborn, but a 10% hit rate is still high enough to keep me trying.

The most reliable hit rates have been with live events, like pro sports and concerts.

It takes a maximum of 60 seconds to check, and depending on the total price, it could save you a lot of money.

Article Arcade

Giving People Money is Not That Helpful

The Argument

The war on poverty is worth fighting but widespread cash transfers are proving to be unhelpful in addressing chronic poverty in high income countries. Unfortunately, most studies don’t make the news, or are misrepresented.

Why Do Lottery Winners Go Broke?

Of Dollars and Data

In 2018 the CFP Board of Standards said nearly one-third of lottery winners eventually declare bankruptcy. Nick thinks that methodical wealth building ingrains the value of money, while overnight rags to riches events do not.

AmEx Platinum Updates

The Points Guy

American Express unveiled a big update to their flagship Platinum credit card, following Chase a few months back. I’m not a Platinum card holder, but I think the updates are better than anticipated.

\$150k is Abnormal, Right?

Jeremy on X

Sort of not really. According to the Census Bureau, 34% of American families now have over \$150k of income. That’s a first historically speaking - and yes, the data is adjusted for inflation.

4% is More Like 2%

A Wealth of Common Sense

Despite having ample savings, most retirees withdraw conservatively, often just 2% annually, leaving high-net-worth households with capacity to spend over \$1 million more across 30 years without jeopardizing their financial security.

Free Tuition at Wake?

Wake Forest University

Wake Forest said tuition will be free for admitted students from North Carolina if families earn less than \$200k and reduced by 50% for those earning up to \$300k. That feels very generous given the median family income is south of \$100k per year.

Talk of the Month

Relative: I think hotel points, when used, should be considered taxable income.

Me: That’s an interesting idea. Why?

Relative: It seems like big hotel chains with expansive loyalty programs stifle boutique and/or startup properties.

Me: I agree. Go on...

Relative: Particularly when employers pay for our hotel stay and we get to keep the points. Not when we paid personally for a stay and get points (a rebate technically).

It’s hard to justify paying out of pocket for leisure trips when I could stay for free with my work accrued points at various chains.

Me: I see your point, no pun intended. At what rate would it be taxed?

Relative: Probably at fair market redemption value. So, whatever the cost of your stay would have been, it gets added to your taxable income for the year.

Me: Same thing for airlines?

Relative: No, I don’t see that industry having the same issue.

Me: This would be hard to track, but I don’t hate the idea as much as expected.