BUSINESS

FINANCIAL REPORT

The election and the stock market: Is there a connection?

By Fred T. Synder

You may have recently heard or read several stories that have discussed how the stock market will react to the results of the presidential and congressional elections. But before you start rearranging your investment strategy around the temporary hype surrounding the elections, you may want to know what history tells us about post-election market performance. The answer may surprise you.

Starting with the 1864 election, information in Yale Hirsch's Stock Trader's Almanac indicates the following:

• Stock market shows no pattern in post-election years. The post-election year from December has seen the market advance 17 times and decline 16 times.

• The market hasn't played favorites with political parties. If broken down by which party won the White House, a Republican victory produced a rising market in the calendar year following the election 10 times and a lower market 10 times. Similarly, a Democratic win produced a higher market in the calendar year following the election seven times and a lower market six times.

Of course, if you're a real statistics fan, you may find this interesting: Hirsch's Almanac also shows that in the 15 elections since 1900, the market has risen 13 times when the incumbent party reclaimed the presidency. In the two years of decline, the market dropped only about 0.5% and 2.3% respectively. When the incumbent lost the presidential election, the market declined six out of nine times. However, all but one of those declines were relatively minor.

So, does all this mean that the presidential election results greatly affect the stock market? The simple answer is no. History has shown us that there is a rather faint connection between the election's outcome and the stock market's performance.

After reading this information, you may now be thinking to yourself, "So what really does determine the stock market's performance?" And the simple answer to this question is the economy. If you look at the last 11 post-election calendar years, you would see that there have been six market gains, and five market declines: Again, nothing to establish a clear relationship between the elections and the market. However, if you compare the economy's performance with the market's performance, here is where you will find an interesting relationship has developed:

• The economy holds the key. In the five post-election years in which the economy entered a recession, the market declined in all five years. In the six post-election years in which there was no recession, the market rose five times and declined only once. This clearly suggests that the economy, not the post-election hype poses as the most influential factor determining the behavior of the stock market.

What does all this mean for your investment strategy? In a nutshell, nothing. By keeping in mind a long-term investment perspective and selecting quality investments that best suit your investment objectives, you can ignore the short-term buzz surrounding this year's elections and concentrate more on your long-term financial goals.

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MONEY MANAGEMENT

To refinance or not to refinance: Some basic questions

If you're on the fence about refinancing your mortgage, you should consider both the financial and tax aspects before making a decision, according to the Nevada Society of CPAs. Don't be misled by the old rule of thumb that you should refinance only when you can lower the interest rate on your current mortgage by two percentage points. Whether or not it makes sense for you to refinance depends on how much you'll save, what the refinancing costs are, and how long you plan to stay in your home.

Try some simple arithmetic

Doing some simple arithmetic can help determine how you will fare financially. First, add up the costs. Refinancing expenses typically include points, an application fee, a title search, insurance premiums, a new appraisal, and attorney's fees. Next, determine the amount of your new monthly payment. Factors that will influence that amount include the rate of interest on the new loan, the duration of the loan (for example, 15, 20 or 30 years), and the amount of the loan that you refinance. Your banker or CPA can help you with this calculation.

Subtract your new monthly payment from your current monthly payment to see how much you'll save each month. Then, divide the total cost of refinancing by your monthly savings. This calculation will show you how many months it will take you to break even. If you plan to stay in your home beyond that point, it probably makes sense to refinance. On the other hand, if your family is outgrowing your present home, or if you see a job transfer on the horizon, keeping your present mortgage might make more financial sense.

Consider tax issues, too

If you refinance the balance of your mortgage, the interest on the entire amount is tax-deductible. Also, you can generally deduct the interest on up to $100,000 borrowed against your home ($50,000 if married filing separately). However, certain income limitations do apply.

Points are another tax issue to consider when refinancing. Unlike the points you paid to acquire your original mortgage, which were deductible in the year paid, points paid to refinance a mortgage generally must be deducted over the life of the loan. However, if you use part of the funds for home improvements to your principal residence, IRS rules allow a deduction for a portion of the points allocated to the improvements.

Here's an example: suppose this year you refinanced an existing mortgage with a new loan of $100,000, of which you used $75,000 to pay off the balance of the old mortgage and the remaining $25,000 for home improvements. You pay $4,000 in points. Because you are using 25 percent of the loan proceeds for improvements, you can deduct $1,000 (25 percent of $4,000) on your 1996 tax return. The remaining $3,000 in points must be written off over the life of the loan. If you sell your house and pay off the loan, the remaining portion of the points is deductible at that time.

Keep in mind, however, that if you refinance to secure a lower interest rate, you also reduce your mortgage interest deductions. That reduction may result in an increase in your taxes; nevertheless, the bottom line should result in cost-savings.

Maximize other advantages

While a desire to reduce monthly payments may be what motivates most homeowners to refinance their mortgages, CPAs say refinancing can help you achieve other important financial objectives as well. If you took out an adjustable rate mortgage (ARM) when rates were high, you may want to refinance to switch to a fixed-rate mortgage with predictable payments. If you've built up equity in your home but need cash to pay tuition bills or consolidate debt, refinancing allows you to remove your equity and receive cash. Another advantage to refinancing is the opportunity to move to a shorter-term mortgage. When rates fall, you may be able to get a 15-year loan for a monthly payment that is not much more than a longer-term one. With a 15-year mortgage, you can save thousands of dollars in interest costs while building your equity at a faster pace.

Shop around for the best loan

First, check with your present lender about refinancing options. Some offer special refinancing deals to current customers or may agree to waive a new appraisal or title insurance. But don't limit yourself. Today, banks, savings and loans, mortgage companies, and even most brokerage firms offer mortgages.

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Real Estate Perspective

By Loretta Arrington Hall

Mortgage serving transfer

Just a little something you should know ... the company that collects payments on a mortgage loan is said to "service" the loan, even if it doesn't actually own the loan. Servicing of the loan may be transferred, sold or assigned to another party at any time. Example, you have been paying your mortgage loan to the same company for many years ... with surprise you begin receiving your mortgage loan payment notices from another mortgage company informing you that they are now servicing your loan.

The 1990 Mortgage Servicing Transfer Act regulates how a homeowner must be informed of such transfers if this happens to you or anyone you know. If the servicing of a mortgage loan is transferred in any way after closing, the borrower must be notified in writing by the new and original servicers within 15 days of the effective transfer. The notices must include this information:

• The date the first payment is due to the new servicer and the date the old servicer will stop collecting payments.

• The name, address and toll-free or collect-call number of the new servicer.

• The name and toll-free or collect-call number of an employee of the old servicer and the same for an employee of the new servicer.

• You must also be informed of any effect the transfer has on mortgage life, disability or other optional insurance, and what the borrower must do to continue coverage.

The new servicer may not impose a late fee within 60 days of the transfer if the borrower makes a payment to the old servicer before the first payment to the new servicer is due. Original lenders of government-related loans also must provide a statement on the likelihood a borrower's servicing will be transferred. A borrower's written correspondence for loan information must be acknowledged within 20 working days and responded to within 60 days. Penalties for noncompliance include damages and a class-action penalty of up to $500,000. Know your rights and continue to be knowledgeable and informed consumers.

As always, please contact a professional for all your real estate needs or write to me c/o Real Estate Perspective, Las Vegas Sentinel-Voice Newspaper, 900 E. Charleston Blvd, Las Vegas, Nevada 89104, (702) 494-5432; Fax (702) 457-0114.

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