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5 Wise things to consider when buying a vacation home

With winter just around the corner and freezing temperatures arriving early in many states, some may be thinking of their future dream vacation home. According to the National Association of Home Builders, 7.4 million Americans own a second home as of 2016. Most of these buyers will fall between the ages of 62 and 91 according to the 2017 National Association of Realtor's Investment and Vacation Home Buyers Guide.

Here are five things to consider when eyeing up the housing market for your vacation home.

1. Understand your budget

Before getting serious about the vacation home buying process, it is important to fully understand whether or not your budget has room for the purchase.

Not only should you be considering what can fit with your current financial situation but also what may happen if unexpected costs arise or if the housing market changes rapidly. These are great conversations to have with your financial advisor to gain a clearer picture of potential scenarios that may impact your decision.

2. Location

Location is the most important word of real estate and for good reason. The market you choose for your vacation home will have a big impact on price and use cases. Buyers should consider what their ideal purpose of the vacation home will be and how that market is suited to those needs.

When looking at a vacation home as an investment, it is also important to think of how the investment will fair over time. If you are able to get into a neighborhood that is flourishing with local growth expected in the coming years, it may be worth spending extra for the possibility of the home gaining value down the road. Also, if you are planning to rent the home out when not being used, consider the health of the rental market in that area and how easy it will be to find quality renters.

3. Rent before you buy

If you have a location picked out and are close to purchasing, it can be wise to set up a trip to the area. By spending an extended period of time in the area you will gain a far better outlook on how much you will enjoy your future vacation destination.

Take note of the small things that may impact you on future visits or an eventual full-time move such as local dining options, traffic levels, and other vacation goers.

4. Other costs to consider

Beyond the purchase and loan price of the home, do not overlook the costs associated with actually using your vacation home.

If you are in a remote location, think about the additional travel costs such as increased airfare and ground transportation compared to a more popular area.

Maintenance costs should be considered prior to purchasing your vacation home. Research the local climate and work closely with a realtor from the area to discover costs that may arise in the future.

Remember to account for differences in tax and insurance costs compared to your primary residence when researching your vacation home. These can often catch vacation homebuyers off guard due to unfamiliarity with the area.

5. Plan for the future

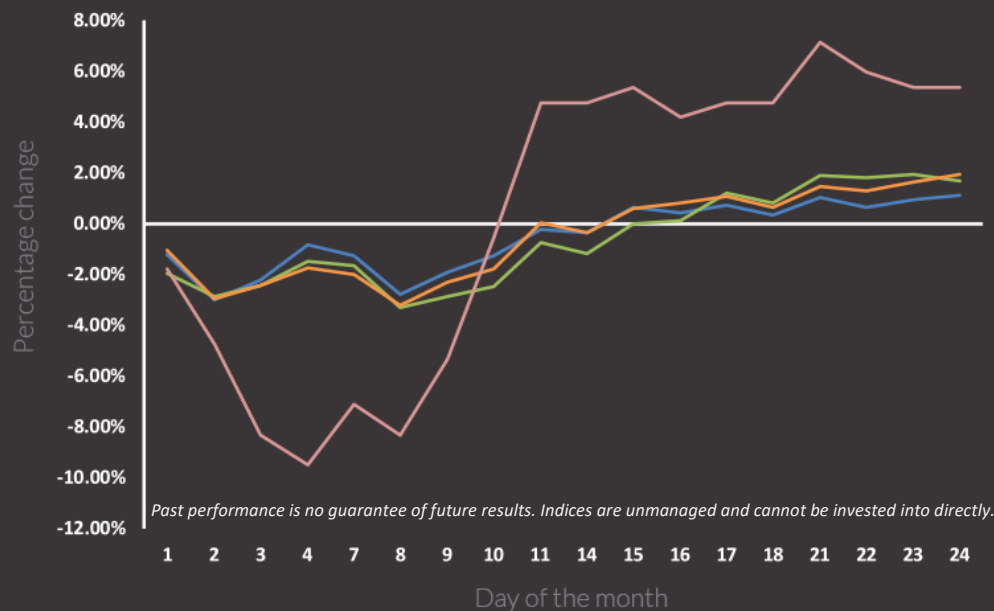
Once you have found your ideal market and are narrowing down choices, remember to think of what will happen to the home in the future. If you have a younger family, think of how the home will be utilized as your children grow older and schedules get busier.

Additionally, retirees should be conscious of how their decision to buy can impact family members down the road. Extensive planning should be done to determine who will take responsibility of the home if you pass away or become unable to utilize the property.

The market at a glance

October

■ U.S. Large Cap (S&P 500)	3,037.56 (2.04%) ▲
■ U.S. Mid/Small (Russell 2000)	1,562.45 (2.57%) ▲
■ International Large (NYSE International 100)	5,495.36 (1.79%) ▲
■ U.S. Treasuries (U.S. 10-year Treasury yield rate)	1.69 (0.60%) ▲



The market in action

- Electric-car maker Tesla saw shares rise nearly 20 percent following news of a \$143 million gain in the third quarter, despite analysts' expectations to post a loss. Tesla reported it delivered 97,000 cars in the quarter and will need to deliver another 105,000 in the fourth quarter to meet its annual forecast.
- Shares of Microsoft rose three percent and reached an all-time high following news that the technology company secured a \$10 billion contract from the Pentagon for cloud computing services, beating out rival Amazon for the deal. So far in 2019, Microsoft shares have risen more than 40 percent.
- After posting a strong third quarter where it added 6.8 million subscribers, shares of video streaming service Netflix were trading up nearly 10 percent. Revenue in the quarter grew 31 percent compared to the same period last year as the company continues to expand its international offerings.
- Food delivery service GrubHub saw its shares fall more than 40 percent following disappointing earnings in the third quarter. So far this year, the stock has lost more than half its value, with several analysts downgrading the stock after the news.

Testing your luck: How the lottery works and what to consider when playing

Whether checking out at your local supermarket, filling up with gas at the corner station, or watching your favorite TV show, you have likely been reminded of one of the most popular ways for consumers to test their luck: the lottery. According to a 2016 study from Gallup, nearly half of all Americans say they have played a state lottery in the past year. The attraction to purchasing a lottery ticket is obvious – a relatively effortless way to have a shot at winning an enormous jackpot. In fact, 2019 brought the third-largest lottery win in U.S. history with a \$768.4 million Powerball jackpot and 2018 brought the largest ever at an outstanding \$1.6 billion.

Here are some things to know about how the lottery works from a financial standpoint and what to consider if you are interested in playing.

Taking in taxes

State-run lotteries are currently operated in 45 of the 50 U.S. states, along with the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Though there is no lottery operated across the country at a federal level, many Americans will recognize two games that are indeed popular across the nation: Mega Millions and Powerball. These two games are run by independent, non-profit organizations of which most states are members. Powerball (run by the Multi-State Lottery Association) and Mega Millions (run by the Mega Millions Group) are separate entities but reached a cross-selling agreement in 2010 allowing their existing state members to sell both Powerball and Mega Millions tickets.

The benefit for states to be involved in lottery games is clear: tax revenue. States are able to collect an enormous amount of tax revenue if a winning ticket is bought and claimed in their state, which feeds into budget areas determined by state legislation. For example, ABC News points out that Texas has contributed \$22 billion of lottery winnings to public education since 1997, Pennsylvania has dedicated \$28 billion to senior resident programs since 1972, and Colorado indicates they use the funds to preserve local wildlife and parks.

Despite the state benefit, the federal government takes the largest chunk of jackpot winnings. To start, all winnings over \$5,000 are subject to tax withholding by lottery agencies at a 25 percent rate. Depending on the winner's tax bracket and size of winnings, that can swell to a total of 37 percent.

Consider these tax rates on the Powerball jackpot from 2019. The winner from Wisconsin elected to take the \$477 million lump sum cash prize and was required to pay out nearly \$213 million in federal and state tax. Known nation-wide as a chance to win \$768.4 million, the winner only brought home a total prize of took home about \$264 million.

Payout options

After hitting the jackpot, lottery winners have a crucial decision to make about how they receive their money. Payouts can be received in either lump-sum or annuity form, with pros and cons to each.

Lump sum, which is the most popular method of payout chosen by jackpot winners, immediately gives you the full pile of cash after taxes, allowing the winner to do with it as they please. Many take the lump sum due to the possibility of growing that money through investments and to lock in their tax rate as it sits today. This option comes with a high degree of risk and requires discipline to pull off. According to the Consumer Financial Protection Bureau, nearly one-third of lottery winners eventually declare bankruptcy. Additionally, a study from The Review of Economics and Statistics found that 70 percent of Florida jackpot winners had spent their entire winnings within five years.

The safer, less flashy option is to receive a series of payments through an annuity. These payments are locked-in with winnings being distributed over the course of 26 years for Mega Millions winnings and 30 years for Powerball winnings. This option also means that winners cannot opt to get a larger sum of money from their annuity in case of an emergency. Thankfully, winnings are contractually protected and will continue to be paid to beneficiaries in the case of the winner's death.



Stacked odds

Although the appeal of winning the lottery is enticing, it is important to understand just how unlikely a jackpot win truly is. For example, this year's \$768.4 million Powerball jackpot had odds of one in 292.2 million according to the AP, while 2018's historic \$1.6 billion Mega Millions jackpot had odds of about one to 302 million according to NPR.

When jackpots swell to numbers that large, we are often reminded of how the odds stack up against other wildly unlikely incidents. You are less likely to win jackpots such as those than get killed by a vending machine, have identical quadruplets, get struck by lightning, or be diagnosed with the plague.

While playing the lottery can be an entertaining experience, investors should be aware of the odds stacked against them and not let the spending impact other, more pertinent financial needs and goals.

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