THOUGHTS FOR THE WEEK

CONTEMPLATING THAT BIG PURCHASE

February 09, 2024

After a lifetime of work, a big liquidity event, or a successful exit from a business, the world may *be* your oyster, and anything may seem possible: fund your next business yourself, buy a house for mom, fund college for your siblings' kids, support research to find a cure, splurge on toys. A bigger balance sheet means greater financial choice, but how can you ensure that your choices compliment your balance sheet, and don't restrict it?

A few questions we keep at the ready:

Does the decision need to be made now? Is there a way to "test drive" it? A "dream" purchase like a vacation home is loaded with emotion, and the excitement can cloud your thinking. My wife and I once bought land at a Costa Rican resort being developed by a friend. We loved the surf, the community, and the sense of adventure, so, swept up in the excitement, we put down a deposit. Upon returning to San Francisco, however, reality set in. With two daughters in school and on travel volleyball teams, and committed to annual summer tradition of backpacking the eastern Sierras, it dawned on us, "Where the hell will we find the time to use this Costa Rica property?" Luckily, our friend was kind enough to give us our deposit back. But lesson learned –stepping back for a moment to let the excitement settle, thinking through scenarios, and maybe taking a long-term rental before fully committing can save time, money, stress, and hassle.

What opportunity costs, carrying costs, and non-financial costs come with deploying the capital? Acquiring non-cash producing assets reduces your earnings power while simultaneously increasing your costs - property taxes, insurance, maintenance, furnishings, household staff, HOA fees, etc.

Non-financial costs are real too. Time is the big one regardless of your net worth. Even a rental property or a sailboat that you put in a charter pool requires a manager, and has ongoing costs and problems you'll have to solve.

A friend once built a dream home in Cabo San Lucas. They loved Cabo, but they found that the first few days of every visit were consumed with chores. The salt air ruined the flat panel TV; the swimming pool filter broke down and parts weren't locally available – a never ending list of "one-time recurring expenses" ensued. They opted to sell the property and instead join a membership club that allowed them to stay at luxury properties all over the world and throw the keys to someone at the end of each trip. Ownership turned out to be the sub-optimal option, and our friends report feeling less confined, and not compelled to "have to" go somewhere, to justify the cost of ownership.

Are the people your decision will affect aligned with the same goal? Another friend and his wife, avid skiers, built a ski home 90 minutes from their main home, assuming their kids would love skiing as much as they did and that the house would become a magnet for their kids and their friends during high school, college, and beyond. Alas, the kids love golf and surfing…but not skiing….and the parents own more ski house than they need.

Will this decision build freedom or restrict it? Financial assets are tools for building the life that you want, and for creating your own, unique "perfect calendar." We've observed that those appearing the happiest – clients, friends, other family members – are those who have managed to achieve real financial independence – their lifestyle, assets, and time are in balance. They are often not the richest, but rather the most content. They can choose what they want to do, and when, and continually fill their lives with new, rich, and rewarding experiences.

Far be it for us to tell you how to spend money, but we do think it makes sense to, when contemplating a large asset purchase that comes with time commitments and ongoing costs, to "run the numbers," so to speak. Consider the time requirements, and what you'll need to sacrifice to free up that time. Consider the costs, and how you might feel after writing that large HOA check for the umpteenth time. We often joke that we can't decide without a spreadsheet, but sometimes those spreadsheets force us to examine previously overlooked angles. Taking a pause before a big decision, and thinking through the possible costs and benefits, can help avoid costly mistakes. You may find that big purchase may still make complete sense. Or you may walk away with a feeling of relief. But at least you'll have "given it some thought." And we're here to help!

Enjoy your reading and your weekend,

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

Private Wealth Advisors
Mike Burbank, CIMA®, CFP® | Managing Director
Scott Hafeli, **CFA** | Executive Director
Willis Davis, **CFA** | Senior Vice President
-
Cate Rachford | Senior Vice President, Group Director
Suzy Shin | Wealth Management Associate
Oscar Castillo | Portfolio Associate
Wes Cai | Wealth Management Analyst

Morgan Stanley Private Wealth Management | The Burbank Group
555 California Street, 14th Floor | San Francisco, CA 94104
Phone: +1 415 576 3134

Mike Burbank's Awards:
2017-2022 **Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State)
Source: Barrons.com (Awarded 2017-2022). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

2013-2020 **Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19

2019-2020 & 2022 **Forbes Best-In- State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
Awards Disclosures

Please note that the URL(s) or hyperlink(s) in this material is not to a Morgan Stanley Smith Barney LLC website. It was created, operated, and maintained by a different entity. Morgan Stanley Smith Barney LLC is not implying an affiliation, sponsorship, endorsement with/of the third party or that any monitoring is being done by Morgan Stanley of any information contained within the linked site; nor do we guarantee its accuracy or completeness. Morgan Stanley is not responsible for the information contained on the third-party web site or the use of or inability to use such site.

The information and data contained in this piece are from sources considered reliable, but their accuracy and completeness are not guaranteed.

This illustration in this piece is hypothetical and shown for illustrative purposes only. The illustration is not intended to predict the returns of any particular investment, which will fluctuate with market conditions. Actual results may differ from those depicted in the illustration. The Burbank Hafeli Group at Morgan Stanley Private Wealth Management is focused on serving the investment and financial planning needs of the founders of food, beverage, and consumer products companies and private equity and investment banking professionals.

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning and other legal matters.

Asset allocation, diversification and rebalancing do not assure a profit or protect against loss. There may be a potential tax implication with a rebalancing strategy. Please consult your tax advisor before implementing such a strategy.

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided, nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be appropriate for all investors. Morgan Stanley Wealth Management recommends that investors independently evaluate particular investments and strategies and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low-price levels.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives, and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Morgan Stanley Private Wealth Management, a division of Morgan Stanley Smith Barney LLC. Member SIPC.

CRC 6371314 dtd 02/09/2024