



Millennials: Houses Are Not the Best Investment. Buy Stocks Instead

Description

At this moment in your lives, stocks are a much better investment for practically every Canadian millennial out there than a house ever could be. If this isn't a kick in the pants of conventional wisdom for many, I don't know what is.

There are a number of reasons for this thesis, but it is my hope that after reading this article, you will make the wise decision to buy stocks, such as an [index fund](#) like **Vanguard S&P 500 Index ETF** ([TSX:VFV](#)) or **iShares Nasdaq 100 ETF** ([TSX:XQQ](#)) instead of sticking money into that expensive dream house of yours.

Your parents were lucky

The first reason that people give for buying a house is the fact that many homeowners in Canada, especially those in the major urban centres such as Toronto and Vancouver, have done so well with their homes. Prices in those cities have skyrocketed in recent years, making many people into paper millionaires.

Unfortunately for most millennials today, however, those same gains are unlikely to continue in your lifetime. You see, people are often subject to something known as hindsight bias, where they tend to project future returns by looking in the rear-view mirror. Have you ever heard the disclaimer, "Past performance is not indicative of future results?" Well, the same holds true for housing.

You see, while parents will often bemoan the truly high interest rates on homes, their home purchase value was significantly lower. This means that even though they had VERY high interest payments, they were able to pay off their homes and renegotiate mortgages over time. If they had a variable rate, their rates would have naturally fallen as well, giving them an average interest rate lower than what they may have paid at the start as their home values increased.

Furthermore, wages have barely budged in the past 40 years, so you are trying to pay down your house with pay that is barely more than your parents might have earned. Even more frightening is the fact that the absolute amount of debt you would have to borrow is often many times more than the value of your parents' original purchase price.

Are you jealous that your friend's houses have gone up 30% or have even doubled in the last five years? Well, that's not terribly impressive given the fact that the XQQ Nasdaq and the VFV S&P 500 index ETFs have done practically the same thing or even better than houses in every part of Canada over the past year, with each being up 80-90% over that time frame. And that doesn't even include the dividends.

Quality of life

But what about the fact you own the roof over your head? Well, my dear readers, you have to consider the cost of owning a house as compared to the cost of holding stocks.

Property tax is the easiest comparator, since these taxes are set and can be examined using percentages. Depending on where you live, property taxes are somewhere in the range of 0.8-2% of your home value per year, although they can be higher or lower depending on the city. Think of this as your set carrying cost of owning your home (leaving your mortgage out for a moment.)

The management expense ratio for a [market ETF](#), which has performed about the same as housing, is a mere 0.32% for the QQC-F and only 0.08% for the VFV. That is a massive difference in carrying costs. Besides, your dividend on the ETFs will passively cover the fee while you will have to have someone living in your basement to cover the fee on your house. At present, XQQ sports a dividend of 0.2%, and VFV one of 1.32%.

The bottom line

I hope you now see that looking at homeownership as an investment is ridiculous. There is no yield, no superior return, and less in the way of quality of life. Millennials, pay attention: at the present time investing is superior to homeownership.

If you choose to buy a home over investing, you are buying a luxury item on credit. It is a liability more than an asset, since it does not provide a yield. Be savvy, and invest in stocks and build your wealth before you even consider buying a home.

CATEGORY

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TICKERS GLOBAL

1. TSX:VFV (Vanguard S&P 500 Index ETF)
2. TSX:XQQ (iShares NASDAQ 100 Index ETF (CAD-Hedged))

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