

Rebalancing Your Personal Balance Sheet

A reader asks:

I'd love to hear your thoughts on using stock market gains to pay down the mortgage. I'm struggling with that idea now.

So you would be using equities to pay down debt to build up equity...and my head hurts.

We in the finance community spend a lot of our time discussing market-related commentary but probably don't spend enough time talking about personal finance, which is much more important for most people. I love working through these types of situations because it gets to the heart of personal finance and goes beyond your typical investment analysis.

There are many considerations when thinking through this kind of decision:

Why are you thinking of selling stocks in the first place?

Is it for the right reasons?

What was the point of the money you have in stocks in the first place?

Why the rush to pay down your mortgage?

What are the tax consequences?

What's your opportunity cost with this capital?

What is the psychological cost of this capital?

You also have to consider the fact that this would be a liquid (publicly traded stocks) for illiquid (house) asset swap. Long-term returns on stocks are generally higher than the after-tax interest expense on a mortgage but I don't think this is the kind of thing where you make the decision based solely on the performance of the assets involved.

You could try to look at your mortgage like something of a fixed income asset because you know exactly what the return will be by paying down your mortgage but there's more to it than that.

A home -- and to a lesser extent, a mortgage -- is a very personal asset. Debt is a very personal topic for many. Some people don't mind using leverage in a responsible manner, especially at today's low-interest rate levels. Others avoid debt like the plague and pay it down as quickly as humanly possible.

This is an interesting angle though because it's essentially a rebalancing of your personal balance sheet. Housing or the stock market aren't guaranteed to rise over the course of your investing and saving life-cycle so both assets come with risk. So really this is a rebalancing of one type of equity risk for another.

My views on paying down a mortgage have evolved over the years. I was deadset on paying mine down right away when we bought our first house. But after a series of refinancings from lower interest rates (and a move into a [new home](#)) I'm not in as much of a hurry as I once was.

I'm not sure you'll ever run across a person who was sad they paid off their mortgage early. It has to be extremely freeing when you take that burden off your shoulders. Personally, I always like to balance these things out between saving and paying off this kind of debt.

But in terms of using stock market gains to pay down your mortgage I think you have to consider the following:

- How much money you have saved for retirement and other long-term goals.
- How long you plan on staying in your house.
- How comfortable you are in having your savings tied up in an illiquid asset that you also live in.
- Which move you'll regret less -- paying down your mortgage faster or potentially missing out on future stock market gains.
- How close you are to retirement.

The last, and perhaps biggest, consideration is the fact that this is more or less a decision that you can't take back. With stocks, you can buy and sell, go to cash, go to bonds, buy other funds, etc. But paying down your mortgage debt is a one-time deal (I suppose you could take out a home equity line of credit but that gets you right back to where you started -- in more debt).

So this seems like the type of decision that you better be sure of before going through with because there's no going back until you have another transaction with your house. I'm a huge proponent of regret minimization and balance in both life and finances so this is the kind of deal where I would be most comfortable splitting up and/or doing in pieces.

Further reading:

[The Pros & Cons of a 30 year Fixed Rate Mortgage](#)

Now here's what I've been reading lately:

- Business lessons from Ben Thompson's Stratechery ([25iq](#))
- What are the right reasons to sell your stocks? ([Humble Dollar](#))
- Rules of thumb are worthless in the markets ([Reformed Broker](#))

- Decision making by general managers ([Waiter's Pad](#))
- Low cost investing still hasn't taken off across the pond ([TEBI](#))
- Detroit: The most exciting city in America? ([NY Times](#))
- Where do your finances rank among the average American ([Budgets Are Sexy](#))
- Wes Gray shares his experiences studying under Nobel laureate Richard Thaler ([Alpha Architect](#))