

“Buying a Home: Part II of II: When to Buy”



Part II: When to Buy

In Part I of this Editorial, I discussed why a graduating medical student and most physicians-in-training are not in a position to buy a home. In this Editorial I will discuss what to consider when that time finally comes.

- 1) This is terribly trite, but quite true. “If you want to be rich, keep your first job, your first spouse, and your first home.” I estimate that each time you move, costs you about 2 years of your financial life. Choose wisely and stay there. Warren Buffett still lives in the home in Omaha, Nebraska that he purchased in 1958 for \$31,500.
- 2) As noted in a previous Editorial, live close to where you work. The time saved in the daily commute, and the expenses and depreciation of your vehicle, will be one of the most important strategic decisions of your life.
- 3) Take a fixed-rate mortgage. Adjustable-rate notes are gambling. The only problem with being lucky is that you could be unlucky. The bond bull market of the last 3 decades appears to be over. Interest rates may stay low for a while, but at some time they will rise, possibly a lot. When I moved from Boston to St. Louis in 1980, my mortgage was 16% (that is not a misprint).
- 4) Take, at most, a 15-year mortgage, with no early repayment penalties. A mortgage is compound interest in reverse, compounding working against you. Your goal is to have your home paid off by age 45 to 50. You will always have a place to live. When that glorious day comes, rather than writing a check on the 1st of every month, it will be like an armored car driving up and dumping a bag of money on your doorstep, money you can do with what you wish: invest, save more for your retirement, buy the finer things of life, and insure a superior education for your children.
- 5) The (old) standard advice was that your home should be no more than 2 to 2 1/2 times your yearly salary. That got stretched to 3 years, then 4, then more, and looked what happened. Put another way, your monthly payment should be no more than 20% of your salary.
- 6) Whenever borrowing money, do not lose sight of the absolute amount. One million dollars is 2 1/2 times a

salary of \$400,000. But it is also a lot of money. Whenever you do anything, ask yourself: “Can I still afford this if my income were cut in half?” Or: what if the hospital CEO, who was so charming when you were recruited, decides not to renew your contract?

- 7) Some have noted that because the average homeowner pays 54% more per month than the average renter, you should rent rather than own. They suggest that if you invest the difference, in the long run, a renter will come out ahead of a homeowner. I consider this a specious argument, because it ignores the equity accumulation and price appreciation of a home. It also ignores the fact that your rent will continue to rise, while your mortgage costs are fixed, or, when the mortgage is paid off, there are no monthly payments at all. One of your basic personal and financial goals in life should be to own your home free and clear.
- 8) The above notwithstanding, your home may be a good investment for your heirs, but for you, consider it a place to live. Buy a nice home within your means in a nice neighborhood, as close to work as possible, pay it off as early as you can, and stay there.

Disclosures

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