Morgan Stanley

Make a Major Purchase With Confidence

A survey indicates that **54% of people are looking to spend on a big-ticket item in 2022**[1] —maybe it's a new house or car, or a life event like a wedding or vacation.

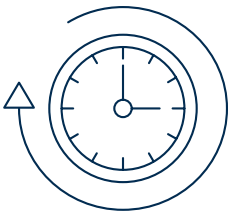
But the excitement around a new purchase can be moderated with angst about all the money you're spending. With a plan in place, you can feel good about your decision and mitigate potential buyer's remorse. But if you don't have a plan, you aren't alone. Ernst & Young Global Wealth Research Report found that "two-thirds of wealth clients have met their financial goals or are well prepared to do so, but younger and less knowledgeable clients feel notably less confident than their older, more knowledgeable counterparts."

Our team of Financial Advisors at Morgan Stanley Virtual Advisor (MSVA) can help. We believe in making plans for all of life's financial objectives—both big and small.

Before you commit to a purchase and sign on the dotted line, ask yourself the following questions:

Is this purchase a need or a want?

First, examine the reason for your purchase: Is this a necessary item—such as replacing a broken appliance—or a spur of the moment upgrade? Is it a milestone life event like a new home or a wedding? Consider what you are really looking for with this expenditure.



TIP:

Wait 24 – 48 hours to determine if it's a must-have or want-to-have purchase. See if the desire lessens or even passes.

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For major product purchases, have you done your research?

Before you purchase a big-ticket item, be sure do some homework.

- **Read product reviews** and check reports on the durability of the product.
- **Comparison shop** between alternatives. Consider purchasing a used item, an older model or even borrowing or renting the item. But resist the urge to buy a cheaper item if it doesn't include your must-have features.
- **Look online** for "best time to buy a (product name)." Of course, if you need it right now, such as replacing a washing machine, you don't have this option.
- **Explore purchasing a higher quality but more expensive item** if it may last longer and save you money in the long-term.
- If this is something you could sell in the future, **check the resale price** to see how well the value holds up.

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How much do you need now—and in the future? What other costs are associated with this purchase?

For some items, the purchase price is only the beginning. Think about accessories you'll want and/or need for this item and any other additional expenses to prevent unpleasant surprises.

- When budgeting for a car, don't just focus on the monthly payment—factor in insurance, maintenance and gasoline.
- If you're planning a vacation, consider both destination and timing. Consider going in the off season to cut costs.
- When wedding planning, consider factors including guest list, location, and wedding style—as well as who is paying for what.
- When buying a home, compare rates and budget for the down payment, monthly mortgage, closing costs of ~2 to 5% of the purchase price and maintenance and repairs.
- Starting or going back to school? Consider various funding sources: grants, scholarships, financial aid and loans.

4 How will this impact your budget or other existing financial obligations?

Before you commit to a purchase, it can be helpful to understand if you're financially ready to make a large purchase—and that it fits in your budget. **Ask yourself:**

Will buying or owning this make it more challenging to pay your rent, your mortgage or other bills each month?

Will this hurt your ability to pay down student loans or credit card debt?

Will this make it hard to pay bills in case of a job loss?

Seek professional advice

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Don't hesitate to seek out advice from our MSVA team. We can help you think through specific financial scenarios and explain how a large purchase may impact your overall goals-based strategy.

5 How do you plan to pay?

If you're making a big purchase, you have some **options on how to cover the cost.**

CHECKING OR SAVINGS

If you have enough funds available in the bank, you can pay for your purchase all at once.

CREDIT CARD

If you're considering using credit, establish a plan to pay it off as soon as you're able—and keep your credit limit in mind.

FINANCING

A personal loan through your bank, credit union or other financial institution can be a helpful option and may offer lower interest rates than a credit card.

TAPPING INTO HOME EQUITY

This may be an appealing choice if you have built up equity in your home. Whether you choose a home equity line of credit, a cash-out refinance option or some combination of the two, a trusted mortgage professional—in collaboration with our team of Financial Advisors—can help you consider this option.

MARGIN LOAN

With a margin loan, our clients can use a portion of their non-retirement investment portfolio as collateral for cost-effective liquidity. Our MSVA team can help you understand the advantages, limitations and risks of securities-based lending.

What if?

You have time before you need to make a purchase?	Schedule an appointment with our MSVA team to plan for a time horizon you're comfortable with.
You're starting to save for future education expenses?	Make use of tax-advantaged savings vehicles like a Morgan Stanley 529 Plan.

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What if you change your mind? Can you return it?

Once you've taken the time to run through all these questions, you're not likely to change your mind. But you do want to look into the return policy for products before you purchase, consider deposits or down payments that may not be refundable. If there are two options with comparable costs, a more lenient return or refund policy could help you decide which to purchase.

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Are you able to identify and proactively prepare for financial risks?

Again, while some big-ticket items are one-time expenditures, others are ongoing commitments. In addition to protecting your actual purchase, **consider any risks that may impair your ability to pay back a long-term financial obligation**.

Some of the most common uncertainties include:

INTEREST RATE RISK

If you borrow for your purchase, rising interest rates over time may impact how much you owe.

TAX RISK

Changing tax policy may impact your ongoing costs or cost of selling.

MARKET RISK

Timing of a bear market may impact your ability to pay.

OVERSPENDING RISK

Funding too large a purchase may deplete your emergency fund.

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Can you handle unexpected big expenses?

Unfortunately, not all needed big expenditures give us time to plan for them. Whether it's a car that requires repairs, a large medical bill or an invitation to a destination wedding in an expensive locale, sometimes we have to shell out money we weren't planning to spend. However, you can **lessen the sting by holding three to six months of savings in an emergency fund** that you can tap in moments like this. If you don't yet have that cash on hand, set up an automatic transfer of $50 or $100 a month into the account until you reach your target. Be sure to only tap the account for true emergencies and replenish the account if you draw on the funds.

Making a major purchase can be an exciting opportunity to add to your quality of life—and with proper preparation, it doesn't have to put you on unstable financial footing. Our Morgan Stanley Virtual Advisor team will take the time to learn what's most important to you, ultimately identifying strategies to help you reach long-term objectives—including where major purchases may fit in with your overall goals. Be better prepared for the unexpected by reaching out now to our team.

Sources

1. WalletHub, 2022 Large Purchase Survey
2. EY, 2021 Global Wealth Research Report

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