RAM
Rainey Asset Management

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Big Warning on Long-Maturity Bonds!

By Ric Cochran

We've been warning investors for some time about the added risk of owning bonds when interest rates eventually rise, particularly bonds with maturities greater than five years. FINRA, the Financial Industry Regulatory Authority, has released a new investor alert, Duration—What an Interest Rate Hike Could Do to Your Bond Portfolio. It's a sobering reminder that bonds are not without risk. But the risk they describe is not the kind that comes from a bond issuer not being able to pay. Indeed, it assumes the bond issuer makes every single payment, albeit at a rate of interest that could look puny compared to rates of later issues. It's a risk known in the financial industry as interest rate risk, or duration risk, because the risk increases with the length of a bond's duration, or time left till maturity.

Here's a simple look at interest rate risk. If interest rates decline, your bond becomes worth more. If interest rates rise, your bonds are worth less. The longer time until maturity, the greater the change in value. All bonds are affected to some degree by changing interest rates. But bonds with longer time until maturity are affected a lot more. How much more, you might ask? FINRA uses 10 years as one example; each decrease in interest rates of 1% would tend to make the bond's value increase by around 10%. This accounts for a lot of perceived gains investors have seen for the last two to three decades as interest rates gradually declined from double-digit highs in 1982. So without trying to predict the future, is it a fair question to ask how much lower interest rates can go from here?

What about when interest rates rise? Then the opposite is true. The rule of thumb, as used in the FINRA alert, again uses 10 year duration as an example, with a 10% decline in bond value for every 1% rise in interest rates. So it would follow that bonds with 10 years to maturity, all other factors being equal, tend to lose 20% for a 2% rate rise, lose 30% for a 3% rate rise, 40% for a 4% rate rise, 50% for a 5% rate rise, well, you do the math from there. It can go from ugly to tragic. Imagine losing big double-digit percentages on a portfolio you may have been told was not subject to that kind of fluctuation. What if it's yours or your parents?

How ugly could it get? I remember when interest rates on 30 year U.S. Treasury bonds peaked above 15% in 1982. Brokers, perhaps feeling a bit defensive these days, may say you only lose money if you sell the bonds before maturity. That's only part of the story. If you own bonds in a mutual fund, you have no say-so about when they sell bonds within the portfolio. I see a lot of senior citizens who were sold individual bonds that don't mature for decades. And even if they live to see their bonds mature, many have recently locked in some of the lowest effective yields in history. So will they feel okay about holding on to bonds for decades that pay far lower rates of return than newer bonds if interest rates rise just to their historical averages? My guess is they won't be very happy after interest rates rise, their bond values fall, and the difference in interest payments becomes stark. If you see friends earning $3,000-4,000 each year more per $100,000 invested, with interest rates rising just 3-4%, how will that feel?

I have no window on the future of interest rates. Neither does anyone else outside the Federal Reserve. If interest rates creep back up to historical norms, I see pain ahead for long-duration bond owners or shareholders of mutual funds that own them. If

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Important:
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Florida News

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WHAT IF...
Everything you thought you knew about investing was wrong?
Rainey Asset Management (RAM)*

- Why do investors really lose money? You'll be shocked!
- Why does Wall Street profit even when investors lose?
- Why does the financial press favor Wall Street over Main Street?
- Who profits from greed and fear at your expense?
- What about volatility and how can it be tamed?
- How can investors achieve true financial peace of mind?

Call our office for information on upcoming workshops.

Make plans to attend one or several!

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Big Warning on Long-Maturity Bonds!

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interest rates remain at these historically low rates for decades, no immediate pain, though still little or no gain in real terms. If you can figure how to push interest rates lower, you might have a future at the Federal Reserve when Ben Bernanke's term ends, January 31st, 2014. I remember the highest rates in my life, indeed in the country's history, a little over 30 years ago, under then Fed Chairman Paul Volker. Rates have gradually declined for three decades. Now we see rates at historic lows under Fed Chairman Ben Bernanke.

Now you know the inverse relationship between bond values and interest rates, where long duration bonds (10 years or more to maturity) gain value when interest rates decline and lose value when interest rates increase. The ratio on bonds of ten years duration tends to be a 10% gain, or loss, for every 1% increase, or decrease, in interest rates. It can be more with longer duration bonds and less with shorter duration bonds. You can see that managers of bond funds have arguably had an easy ride for the last 30 years. As interest rates trended down, which pushed bond values up, you might wonder, as I have, if accolades accorded some rock star bond fund managers wasn't like the rooster taking credit for the sun rising. But now we are at or near a historic bottom in interest rates. A journey back upward in rates could be brutal.

If you have questions, or want to learn more about how to manage risk in your portfolio, or want to know how much risk is already in your portfolio, please give us a call.

Ric Cochran writes and speaks about investing for everyday people. He's an investor coach at Rainey Asset Management. He can be reached at 318.869.3133.

Do you have financial peace of mind?

Many investors have been fooled by the Wall Street Bullies, otherwise known in investing circles by these names: the con men, the gurus, and the prognosticators! If they really had all the answers, do you think that they would tell you? To be a successful investor you don't have to know everything as long as you know the right things.

Take inventory of the following questions to see if you know the answers:

- Do you know how markets work?
- Do you know how to measure diversification in your portfolio?
- Do you consistently and predictably achieve market returns?
- When building your portfolio, do you know exactly what you are doing and why?
- Do you have a system to measure portfolio volatility?
- Do you know the three signs that you are speculating and gambling with your money?

HEARD IN COURT . . .

ATTORNEY: She had three children,right?
WITNESS: Yes.
ATTORNEY: How many were boys?
WITNESS: None.
ATTORNEY: Were there any girls?
WITNESS: Your Honor, I think I need a different attorney. Can I get a new attorney?

Dealing with Grief …

Mother’s Day and Father’s Day are coming up, and these special days instituted to remember our loved ones can be very difficult for those who only have memories. Grief can rise up unexpectedly even years after those dear ones have passed on.

“Sweet” memories can sustain us, but at other times they can be painful. If you know that a particular holiday is going to cause you emotional pain, plan to be busy with friends or other family members. Or, if you know somebody who is going to have a hard time dealing with a particular day or event, it would be a kindness if you nurtured their healing process by providing some relief by way of activities or fellowship. Another way to help grieving people is to let them talk and cry without judgment or giving too much advice.

Many times grief and depression go hand in hand, and it is important that we are honest with ourselves and others about our feelings regarding certain days and special event reminders so that it sets us free so we can move on with our lives in healthy ways that ultimately provide healing.

We’ve all heard the expression, “time heals all wounds”, however the process is not immediate. And, even once the wound heals, scar tissue will remain. As time passes, the intense experience of loss will be gradually moved to the “yesterdays” of our life. The acute pain of loss belongs to yesterday, so that in time it will be replaced by the sweet remembrances of the person we lost. Not that the bereavement will ever disappear, but there will come a time when tomorrows will be less painful.

How Programmed is Your Brain?

While sitting at your desk or a table, lift your right foot off the floor and make clockwise circles.

Now, while doing this, draw the number ‘6’ in the air with your right hand. Your foot will change direction. Try it and see. You’ll probably try several times.

Just Saying …

Light travels faster than sound. This is why some people
appear bright until you hear them speak.

A fine is a tax for doing wrong.
A tax is a fine for doing well.

Those who live by the sword
get shot by those who don’t.

The things that come to those who wait,
may be the things left by those who got there first.

God gave you toes as a device for finding furniture in the dark.

Louisiana News

TWO FREE PUBLIC WORKSHOPS

Wednesday, March 6

Shreve Memorial Library
Broadmoor Branch
1212 Captain Shreve Drive
(One block north of East Preston)

10am / S.A.F.E. Planning : Don’t Lose Your Home & Savings To Pay For A Nursing Home

1pm / Investing Myths Shattered: How Wall Street is Fleecing Investors

*Presented by Rainey Asset Management, Inc.

Learn the truth about where gains in the market come from, how to manage volatility, whether you are investing prudently or chasing popular myths.

□ **Please call ahead to make your reservation! (318) 869-3133**
Invite friends, family members, and anyone you care about to attend our workshops. This is important to everyone who wants to protect an estate from devastating nursing home costs and / or costly investing mistakes.

See the new issue of PRIME TIME MAGAZINE at www.issue.com/primetimemag

OR

When you come by the office, be sure and pick up your FREE copy!

*Rainey Asset Management, Inc. is a Registered Investment Advisory Firm registered in Florida and Louisiana.

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Markets are Back to Historic Highs! What does it mean?

By Ric Cochran

First, it means all those who predicted worldwide calamity for all these years before have been wrong! In the last few years alone, we've survived all manner of things that talking heads on TV told us would be the end of civilization as we know it, e.g., the Great Recession, the so-called European meltdown, the end of the Mayan calendar, the Fiscal Cliff, the Fiscal Fog, the elections, and Sequestration, billed as the Mother of All Fiscal Cliffs. If you panicked and pulled out, or stayed out, of a prudently invested portfolio because you feared the worst based on these fears, you've missed excellent market returns. So now what?

The market has reached historic highs thousands of times only to go on to new highs. Any attempt to be in or out of the market based on market highs, lows, or asteroids is market timing. It's speculating and gambling with your portfolio. No one has ever demonstrated long-term success at timing the market. No one! Being out when the market is up makes you very likely to miss the next market climb higher. Then, you're sitting on the sidelines praying Mr. Market will back up and let you get on the bus. Problem Is, Mr. Market doesn't care and may never come back to pick you up. Market timing is a fool's errand. Even if the market drops from here before going higher, how can anyone know how far it will drop in order to buy at the bottom? Many historic market climbs occurred on the heels of declines. Many also occurred following previous market highs.

Trying to time the market is speculating and gambling. No, it's not different this time! It never has been. Gambling is gambling. It's not investing, though denial is a river with lots of casinos along the banks. If you want to prudently invest, and leave gambling for the casinos, give us a call. The first step is recognizing the problem.

Visit our website at www.raineyassetmanagement.com to download your **FREE** Investor Awareness Guide and take the **FREE** online Investor Quiz! Call our office to speak to one of our Investor Coaches and follow us on **Facebook** and **Twitter**.

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