Liberty
Advisory Group April 2018

UPCOMING EVENTS

Retirement is Changing – New Rules

Thursday, Apr 12.... Pusser's Caribbean Grille (6:30 PM)

Saturday, Apr 14.... Pusser's Caribbean Grille (11:30 AM)

Wednesday, Apr 18.... Pusser's Caribbean Grille (6:30 PM)

You are welcome to attend one of our dinner events! All we ask is that you "bring a friend" who you think we may be able to help!

Hope to see you this month!!

Here's the most alarming market message: So-called safe havens aren't so safe

The so-called safe-haven assets that retirement investors have relied on for decades to reduce risk during periods of stock market volatility aren't working.

Bonds, real estate and dividend stocks are not doing well.

For investors, this is a sea change related to rising interest rates, and it should serve as a wake-up call to those who still haven't gotten the message. Judging by the investments that are underperforming so far this year, the supposedly safe-haven assets — the ones you counted on to keep your portfolio stable during periods just like the current one, when market volatility surges — are turning out to be not so safe after all.

You could say that 2018 is still a young year and it's way too early to judge things, which is true, but the level of volatility in both stocks and bonds during February is making this year feel like we've lived through two full years already, and I think what the markets are signaling is more likely to be a sea change than a blip. Bonds, as measured by the Vanguard Total Bond Market Index ETF (BND), were down more than 2 percent year-to-date through the end of February. High-yield bonds, aka junk bonds, as measured by iShares iBoxx $ High Yield Corporate Bond ETF (HYG) are down, too, though by a little less.

The stock dive after President Trump's steel and aluminum tariff announcement didn't help. It was the worst first day of the month for the markets since January 2016. Dividend-paying stocks, as measured by the iShares Select Dividend ETF (DVY), were down by more than 2 percent through the first two months of 2018. But compare that to the S&P 500, as measured by the SPDR S&P 500 ETF (SPY), which was up almost 2 percent at the end of February, even amid the stock market volatility, and the Guggenheim S&P 500 Top 50 ETF (XLG), which was up by about 3.75 percent.

Real estate, as measured by iShares U.S. Real Estate ETF (IYR): closing in on correction territory, down more than 9 percent. Utilities, as measured by Utilities Select Sector SPDR (XLU), are off by near-7 percent. And how about those consumer staples stocks that pay dividends? The Consumer Staples Select Sector SPDR ETF (XLP) is down by 6 percent. Big names in the sector are getting beaten up bad: Procter & Gamble is down near-12 percent, and PepsiCo is down by nearly 8 percent.

You get it. And OK, I get it, too. You're going to tell me that I'm just picking on interest rate-sensitive sectors, and again that is true. But it highlights an important concept that conservative investors —especially boomers and seniors who've been chasing passive income the last few years — need to understand before more potential carnage. And it runs counter to popular investor thinking.

"When it comes to stocks — any and all stocks — and bonds with a time to maturity greater than a year, there are no true safe havens. They don't exist."

What does exist are the right economic and interest-rate circumstances that powered these formerly winning spaces, and the truth is that those conditions lasted for a long time, just like the low volatility of the last few years. Just because a trend goes on for a long time doesn't mean we should plan on it continuing forever. As markets sink, so-called safety stocks are getting slammed. The number of big-name investors calling a bond bear market added hedge fund legend Paul Tudor Jones on Thursday, following similar calls from Bill Gross, Bill Miller and Jeff Gundlach. Former Fed Chair Alan Greenspan said on Thursday that the "bond market bubble" is starting to unwind. The bond bull market lasted three decades. Like that popular financial disclaimer says — for good reason — past performance is no indication of future performance.

What does the current market environment favor? One sector is financials, as measured by Financial Select Sector SPDR ETF (XLF) and iShares U.S. Regional Banks ETF (IAT), which are up by approximately 5 percent and 8 percent, respectively, this year. There are a few important lessons I'd like to share with investors about rising interest rates, which typically favor financial stocks.
Higher interest rates are not a death knell for stocks. There are an infinite amount of factors that drive stock prices. But one thing that a rising-rate scenario does do is change the pecking order of winners and losers, regardless of how long a prior pecking order lasted. When the interest-rate regime changes, everything else changes.

In other words, nothing that pays a good yield is safe, and anything that's safe doesn't pay a good yield. During the tech stock boom of the late '90s, the tech sector was driven largely by hardware and semiconductors — Cisco and Intel to name two. But when oversaturation in tech products came about, earnings got crushed, leading to the tech wreck in 2000. Could social media, search and cloud computing become oversaturated in the future? Of course, but that's a risk all tech investors have to live with. But investors obviously don't see that happening anytime soon, which is why the tech sector, as measured by Technology Select Sector SPDR ETF (XLK), was able to transition from 2017 into 2018 and still remain an outperformer YTD, up almost 7 percent at the end of February.

Just like that phrase cited above about past performance, diversification is another lesson that many investors seemingly forget during bull markets. If one had an investment portfolio made up of all of the above safe-haven assets/sectors, one might think that means one is diversified. Turns out that couldn't be further from the truth. Diversification just isn't as easy as it sounds. What you really had were a bunch of holdings that were all correlated to the same set of circumstances — a prolonged period of low interest rates and investors piling into the same dividend and interest-paying securities.

True diversification means having ***some funds*** completely safe in guaranteed investments like fixed index annuities, insurance products, and the old fashion way, in the bank.

Hello Everybody,

April already? Can you believe it? The 1st quarter of 2018 is in the books. I hope you are having an enormously successful year so far!

So we finally are seeing a little turmoil in the stock market after so many years of growth. I hope no one is truly surprised by this. No one knows what the future of the market will be, but we can safely say that there will continue to be corrections both up and down, and we just had a reminder that down happens much more quickly. This might be a great time to take some profits out of the market and get more money in a safe place.

If not now, when?

It looks like we recovered from this scare once again, but how do we protect ourselves from a 2008 type of correction if it occurs? Do you remember how it felt in 2008 when everyone was losing money and our houses also went down in value? It was awful and it can happen again. In my view it is just not worth the risk again, especially in or near retirement.

That is why we created The Bucket Plan®, best interest process and why we use WealthGuard® technology on all of our managed money accounts. Most financial advisors simply put their clients in a series of mutual funds and call it diversified. That is NOT diversification. If this is how you are investing today I urge you to call and set a time to meet with me. We live in a new investment world today with new rules, especially for retirement. We can leverage technology to help protect what you have worked so hard for. Don't get caught on the tracks when that train comes through! We can help.

Live with passion!

Peter

As seen in or on:

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Liberty Advisory Group, Inc.
228 Canal Blvd., Suite 1
Ponte Vedra Beach, FL 32082

Liberty ADVISORY GROUP

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