Magellan
Planning Group, Inc.

Calling All Cash (Again)

-J. Kevin Meaders, J.D.[*], CFP®, ChFC, CLU

July 2022 — I'm making this one short and sweet.

It's that time again. If you've been reading my letters, then you know the last time I called for cash was during the very bottom of the pandemic in March 2020. We're not at the bottom yet, but we're well on our way. Time to get locked and loaded.

As we predicted, inflation is pretty severe and may likely increase. This, again as predicted, has forced the Federal Reserve to raise interest rates. The last rate hike was 75 basis points; pretty aggressive.

We fully expect this to continue. Our prediction is that Inflation will continue to bite, rates will rise higher, the market will drop lower. Remember we are looking for a 50% drop in the NASDAQ and a 35% drop in the S&P 500 and the Dow Jones Industrials. So far, so good.

The rest of America acts like it's all a surprise. But if you've been reading my letters, then you've been in the know for a couple of years now.

As you also probably know, so far this year (as of June 30) the NASDAQ is down **29.51%**, the S&P 500 down **20.58%**, and the Dow Jones down **15.31%**.[i]

Our average account is down about 8% for the year so far. Most of this has been due to the rout in the bond market. Even though we have been in short-term high-quality Treasuries, all bonds have seen significant declines in price.

When commentators speak of U.S. bonds in general, they are usually referring to the Bloomberg (formerly Barclay's, formerly Lehman Brothers) Bond Aggregate Index. The index includes government Treasury securities, corporate bonds, mortgage-backed securities (MBS), asset-backed securities (ABS), and municipal bonds to simulate the universe of bonds in the market. It tracks bonds that are of investment-grade quality or better.

The Bloomberg Bond Aggregate Index has dropped by roughly 15% in the last two years. The majority of that drop has occurred in this year.[ii]

We're not concerned with our Treasuries, however. We predict that as soon as panic stock selling begins in earnest, the Fed will be forced to drop rates back down, and in the meantime the interest we are collecting is increasing. Eventually bond prices will recover. In times like this, quality is king.

Speaking of times like this, I hope everyone can now see how government (and quasi-government) intervention can destroy a perfectly good economy. If you don't remember the seventies, we're all about to get a nostalgic reminder.

And with crazy market fallout, sometimes we find anomalies. Sometimes we can take advantage of these anomalies. We have just moved a large portion of our client accounts into something called TIPS. This stands for "Treasury Inflation Protected Securities."

They are a special class within a class. Treasuries, which are known around the world as the highest credit quality—with interest payments tied to inflation, which as we all know is currently very high.

The current interest payment from these TIPS is in the neighborhood of 1% per month[iii] (as of June 30.) What? What did you just say, Kevin? Surely you mean 1% per year or quarter? No, I did not misspeak. You did not misread. 1 per cent per month, which for you math geniuses is 12% annualized.

How long will it last? I don't know. But I do know like all market anomalies it will eventually normalize. What do we believe is most likely to happen? Well, other investors will likely flock to the same Treasuries, driving up the price.

If the price remains low and inflation remains high, we earn great interest. If other investors drive the interest rate down, the only way they can do that is to drive the bond price up. And we already own it.

So, if you have an cash languishing in the banks and money markets and low-yielding bonds, you may want to consider parking a portion of that money in TIPS until stocks bottom out or our position soars – hopefully which will occur relatively close together in time.

Concerned about safety? Well, what ultimately backs up the FDIC, the SIPC, every insurance company in America, and every pension plan? Treasuries! What backs up Social Security, Medicare, Medicaid, and every other federal program? That's right, Treasuries!

Treasuries pose very little risk of default because they are backed by the full faith & credit of the U.S. government—and as of June 30, this particular asset class is yielding 12% annualized.[iv]

Note that TIPS pay interest based on the Consumer Price Index which is changing monthly—thus the interest rate will likewise fluctuate from month to month. Nonetheless, as of June 30, according to Morningstar and others, the 12-month average has been in excess of 6%.[v] Still much better than we have seen from Treasuries in quite some time, and an opportunity to possibly hedge inflation.

Please contact me to discuss whether this opportunity may be right for you and your portfolio. You can reach me at kevin@magellanplanning.com or Blake at blake@magellanplanning.com. You can also call us at 404-257-8811 or 1-800-377-1332.

P.S. Many of you know that Gui and I recently had a son, Dylan, who just turned one month old. Since I am still on paternity leave (technically), Blake is covering for me as much as possible. Thank you all so much for all the well-wishing and support!

My Very Best to You and Yours!

J. Kevin Meaders, J.D. CFP, ChFC, CLU

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing. S&P 500 – A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Dow Jones Industrial Average, Dow Jones, or simply the Dow, is a price-weighted measurement stock market index of 30 prominent companies listed on stock exchanges in the United States. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may he worth more or less than their original value.

U.S. government bonds/securities are backed by the full faith and credit of the U.S. Government as to the timely payment of principal and interest. The principal value will fluctuate with changes in market conditions. If they are not held to maturity, they may be worth more or less than their original value.

TIPS have maturities of 5,10, & 30 years and pay interest semi-annually. These securities are pegged to the Consumer Price Index (CPi), meaning the principal value increases or decreases with inflation. While their interest rate is fixed, payments will fluctuate based on the adjusted principal value. At maturity, investors receive the adjusted principal or original principal, whichever is greater.

All investing involves risk, including the possible loss of principal. There is no assurance that any investment strategy will be successful.

The Barclays Capital U.S. Aggregate Bond Index, which used to be called the "Lehman Aggregate Bond Index," is a broad base index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

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[i] https://www.cnbc.com/quotes/
[ii] https://www.bloomberg.com/quote/LBUSTRUU:IND
[ii] https://www.morningstar.com/
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