Registered Investment Advisor Firm

©ISSUE X, VOL. VII – OCTOBER – 2018

How to Play the Bond Market as the Yield Curve Flattens?

The yield curve will continue to flatten as the Federal Reserve (FED) raises short-term rates several more times while long-term rates edge only slightly higher. A flat yield curve means that the yield difference between short and long term bonds becomes small, or even negative. Recessions stem when money gets too tight; the flattening yield curve is just a by-product of tight money. There isn't any special indicator that money has gotten too tight. That doesn't mean a recession is around the corner nor should you only invest in the short end of the curve.

One of the best ways to play this current situation is a bond ladder, a portfolio of several bonds maturing in various years. This is useful when rates are rising because as the bonds mature the proceeds can be reinvested into higher yielding bonds.

Another way is to use differing terms and types of bond funds and ETFs. Funds are available in short, medium and long-term and in corporate, government – both domestic and international- and bond alternatives – preferred and convertibles, so diversify to reduce your risk.

What is the FIRE Movement?

A growing number of young professionals are trying to leave the work place before they are 40. They are embracing FIRE – Financial Independence, Retire Early. They are looking for ways to maximize their savings and moving to affordable housing.

There are variations of FIRE: "lean FIRE" – extreme frugality; "fat FIRE" hold on in the work place long enough to keep up a higher lifestyle; "barista FIRE" quit stressful jobs but work at Starbucks part-time for the health insurance.

The key to success is to avoid "lifestyle creep" – the temptation to spend more money as your income rises.

Just know before you set out that there's no magic number for early retirement. You'll want at least four years of living expenses in available cash. You will need more than $1 million to take you through the rest of your life. You can also plan on making some extra money from your passions. Factor in health care cost; that is something many early retirees underestimate.

If you want to retire in your 30's, cut out eating out, movies and vacations. That means forgoing a lot of the things that make life enjoyable.

Even if you don't go all out, you can still follow the FIRE movement and "prioritize experiences over material possessions.

What are Ed "Dr Ed" Yardeni's thoughts on the economy?

Yardeni's 40 year background as an economist was at E.F. Hutton, Prudential Bache, C.J. Lawrence, Federal Reserve Bank of New York and the US Treasury. He was also chief investment strategist at Deutsche Bank's US Equities Division.

-**Stock Market –** Bullish with S&P500 at 3100 at year end.
-**Economy –** Growth to continue at the 3-1/2% to 4-1/2% rate.
- Inflation – Inflation is dead, not zero but should remain at a low rate. Globalization, global competition and aging demographics are the deflation factors.
- Business Cycle – the tax cuts have been very stimulative for corporate profits and the immediate input is that it's stimulating real GDP (growth) so far this year.
- Yield Curve Inverting – the yield curve is one of ten components of the Index of Leading Economic Indicators, which continues to rise to all-time record highs. So even one component raising alarm bells does not mean a recession is on the near horizon.
- Other Analysts' Forecast – They tend to be too optimistic the further out the actual results occur, but they (usually) lower their numbers over time. What analysts miss are recessions. Fortunately they don't last very long. History shows that the US economy has a consistent track record of growing and that stock markets recover from bear markets and make new highs. Bear markets have been buying opportunities rather than reasons to get out of the market.

If you need help or more information on this or any other financial matters, contact Bob Davis at (707) 648-2024.

FED Watch

The September meeting was predictable in that they increased the rate to a range of 2.0% - 2.25%. The FED also removed the language that they were being accommodative and suggested they would raise again at the December meeting. The Fed will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them. They expect to be at $50 Billion quarterly by October 2018.

Next meeting:
November 7th and 8th

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at: bob@crwmadvisors.com