INVESTMENT INSIGHTS

Finkelberg INVESTMENTS of RAYMOND JAMES®

1062 Highland Colony Parkway • Suite 100 • Ridgeland, Mississippi 39157
Arty Finkelberg, CFA, CFP® • Managing Director, Investments • 601.856.1212

Letter #99 September 18, 2019

DJIA	S&P 500	3-MONTH T-BILL	10-YR TREASURY BOND
27,147	3,006	1.95%	1.80%

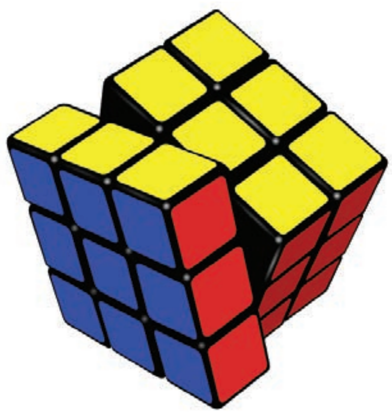
So Which Is More Absurd?

Do you remember 1980? Here are a few highlights:

- The U.S. Olympic hockey team defeated the Soviet Union in the "miracle on ice"
- Ronald Reagan was elected President
- Japan became the largest auto producing nation
- We found out who shot J.R. on the hit TV series "Dallas"
- The Empire Strikes Back and Caddy Shack were playing in theaters
- Pac Man, Post-It Notes, The Rubik's Cube, and CNN all debuted

Also, the interest rate on ten year U.S. Treasury Bonds exceeded 13% and inflation topped 14%.

Now, let's fast forward nearly forty years. Skipping over today's news and cultural references, current ten year treasury rates are below 2% and so is inflation. In addition, over $15 trillion of debt from countries outside (at least for the time being) of the U.S. carry negative interest rates.



Negative interest rates – what does that even mean?

Here are a couple of negative interest rate examples, and I encourage you to reread these sentences a few times to let the meaning sink in. If you purchase a thirty-year German bond you receive no interest payments and the amount of money you receive at maturity is less than what you invested. Or in Denmark, you can take out a ten-year mortgage with a rate of minus 0.5%. In other words, over the course of the loan, the borrower pays back less than he owes. If Lewis Carroll were alive today he might be writing "Alice in Bondland" and calling negative interest rates "curiouser and curiouser."

Why are rates so low (or negative)?

Some possible causes are low inflation (or possibly deflation), trade war impact, demographic shifts, manipulation of currencies, interference from central banks, regulation, lack of alternatives, all of the above, none of the above. I am in no way trying to be flippant about today's interest rate environment because I feel that we are living through an era that is not only unprecedented but will ultimately be considered historic. At some point in the future, we will likely look back at today's rates and think "why didn't everyone see the obvious?" The problem is that these sorts of things are obvious only in retrospect.

Will the interest rate environment change?

I won't be foolish enough to speculate when interest rates will climb, by what degree, or what the catalyst will be. Change seems to be a pretty reliable constant in life and in the financial markets. Just as ultra-high interest rates finally peaked in 1981 at over 15% and started a decades-long descent, I believe that today's ultra-low interest rates are not permanent either.

So which is more absurd?

High inflation is unusual but not unprecedented. It generally occurs with a loss of confidence in a nation's economy, often with a coincident expansion of the money supply. Today, Venezuela and Zimbabwe are two basket cases in point. In the modern era, negative rates have infrequently occurred, but have reversed rather quickly. Except today. The current negative interest rate environment is not only unusual, it is unprecedented. So which scenario is more absurd – 1980's high interest rates and inflation or today's mirror image? In 1980, amazingly, you could double your money in super safe treasuries in just over five years. Today, it would take around four decades. I'd give a slight edge in absurdity to today's environment.

So what does one do?

First recognize that bonds continue to play an important role in investment portfolios. Bonds are still likely to provide a cushion when the stock market gets volatile. Also, by laddering maturities from short to intermediate term and by utilizing high quality alternatives to treasuries, such as investment grade corporate and municipal bonds, CD's,

continued on next page

and agencies, an investor is able to receive a relatively competitive yield. By investing in individual bonds that have set maturity dates, and barring a credit default, we know how much we will receive and when, regardless of where rates are. And if rates have risen, we will, over time, be able to adjust the portfolio to the higher rates as bonds mature and the proceeds get reinvested.

The bottom line is to keep investing in the manner that you are currently doing. Keep enough cash to remain comfortable when the markets are volatile, and keep your stock/bond allocation close to the target mix that honors your risk tolerance. Do not be tempted to assume risks that you otherwise would not accept if rates were higher. In other words, don't chase yield. And while we may not know when interest rates will turn, let's look at the bright side... at least we know who shot J.R.

And speaking of what we should not do:

Until next time,

Arty Finkelberg, CFA, CFP®
Senior Vice President, Investments

Save the Date!

We are often asked about estate planning issues such as naming beneficiaries, drawing up powers of attorney, and creating trusts and wills. Consequently, we will be hosting an educational seminar entitled "Be Prepared" on Thursday afternoon, November 7th at 3:30. The seminar will take place at Anjou Restaurant in Ridgeland and our guest speaker will be Angela Healy. Angela, whom many of you know, is an experienced and compassionate estate attorney with Nippes, Healy & Gault PLLC. We hope to see many of you there.

Out of Town Visitors

L.R. of Oxford, MS

R.S. of Magnolia, TX

R.C. of Leawood, KS

T. and G.H. of Jackson, TN

Special Birthdays

97 M.N. of Madison, MS

95 R.H. of Madison, MS

94 H.G. of Scarsdale, NY

85 C.H. of Clinton, MS

85 F.C. of Madison, MS

85 J.E. of Natchez, MS

85 B.N. of Jackson, MS

85 I.S. of Alexandria, LA

Happy Anniversary!!

66th B. and D.B. of Palm Harbor, FL

63rd B. and P.D. of Hoover, AL

50th J. and G.M. of Jackson, MS

New Finkelberg Investments Website

We are pleased to announce a brand new Finkelberg Investments website, finkelberginvestments.com.

Please check it out and let us know what you think!

1062 Highland Colony Parkway • Suite 100 • Ridgeland, Mississippi 39157 • 601.856.1212 • 601.856.1222 • Sally Steen Avalon CFP® • Editor