October 30, 2023
Letter #114

INVESTMENT INSIGHTS

Finkelberg INVESTMENTS of RAYMOND JAMES®

Fight the Temptation to Time the Bond Market

This is the thirtieth year and 114th edition of *Investment Insights*. By my count, Arty has written 49 times against the temptation to time the market – the man is nothing if not consistent! Most of these articles have addressed timing the *stock* market, but timing the *bond* market is another possible temptation, albeit much more subtle and more common than we may think.

To see how this works, I want to suppose for a moment that it is possible to time the bond market. What would that look like?

Scenario 1: Say I believe that interest rates are going to go up (this is a market timing call), what would I do? Well, there would be no sense in locking in interest rates for a long time by buying a long maturity bond - after all, I believe that rates will go up. The smart thing to do is to put all my money into a very short-term CD or treasury, earn some interest, and then when rates finally do jump higher, I move all my money into a long-term bond to lock it in.

Scenario 2: Let's say I believe that interest rates are going to go down. In this case, I would put all my money into a longer-term bond to lock in current rates before they fall.

Okay, that works great as long as I'm a perfect forecaster. But I'm not. Let's show how this could go wrong. In Scenario 1, if interest rates go down instead, I've made a terrible mistake and I've just missed out on locking in rates before they dropped. When that short-term CD or treasury matures, I'll be forced to reinvest at a disappointing rate (this is called "reinvestment risk"). In Scenario 2, if interest rates go up, I'm upset because I'm now stuck with low yielding bonds…for a very long time.

In both situations, by speculating on interest rates and being wrong, I've permanently damaged the returns on the bond portfolio, which is supposed to be the safe portion of my investments in the first place.

The reality is that countless studies have shown that the most eminent economists, even Federal Reserve chairmen themselves (who control the very numbers they're trying to forecast!), are abysmal at projecting interest rate moves. In fact, it's so bad, that we'd be better off flipping a coin than to follow the advice of market forecasters.

Arty and Finkelberg Investments have always advocated playing games we believe we can win. Interest rate and bond market timing is *not* a game we believe anyone can win, least of all ourselves. The bond portfolio is intended to be the ballast to protect during bad times. It is not the place to speculate and guess.

Our solution is to use a Bond Ladder portfolio. Instead of guessing which maturity to buy and risking being wrong on interest rates, we just simply spread them out over many maturities. The average maturity that we typically recommend on our bond ladder is only 5 to 6 years. With this strategy, if rates go up, we're happy because there are bonds maturing every year to reinvest into new, higher rates. If interest rates go down, we're still happy because most of our portfolio is already locked in.

A bond ladder approach takes out the interest rate guesswork (and speculation) and helps keep the bond portfolio focused on what it's supposed to do: earn interest while helping

Our Mission

"To guide our clients to and through retirement with a minimum of worry—with expertise and kindness."

Arty Finkelberg, CFA, CFP®
Managing Director, Investments
601.856.1212
finkelberginvestments.com

arty.finkelberg@raymondjames.com
davis.bourne@raymondjames.com
alice.fairley@raymondjames.com
sally.avalon@raymondjames.com

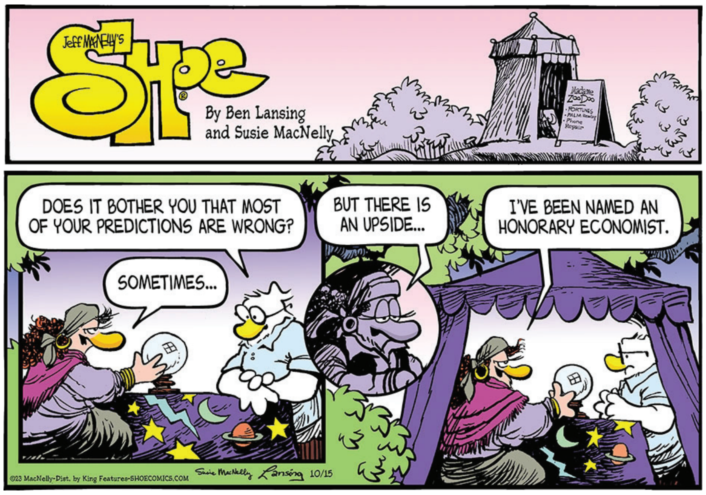
DJIA 32,418	3-Month T-Bill 5.59%
S&P 500 4,117	10-YR Treasury Bond 4.84%

to balance out the stock side of the investment portfolio.

The only reason to stray away from a normal bond ladder approach and use short-term investments is to set money aside for upcoming expenses or emergency funds. If I expect to buy a car next year or have some cash parked away for emergencies, I could invest it in short-term CDs or money market funds to earn interest in the meantime. Strictly speaking, this isn't an attempt to time interest rates or speculate on the bond market, it's simply a good way to earn a return while the money is waiting to be used.

Let's stay away from the interest rate timing temptation and try to keep our safe money safe. So, count this as the 50th *Investment Insights* newsletter to warn against timing the market, only this time it's about fighting the temptation to time the bond market.

– Davis



Year End Reminder

As we approach the end of 2023, please remember to contact us if you plan to do any charitable giving. Whether it be a Qualified Charitable Distribution from your IRA or donating appreciated stock, we want to ensure we have plenty of time to process your donations by the year-end deadlines.

Thanks for Your Concern

I appreciate those who have reached out to ask about my family in Israel. My nephew, Rabbi Stuart Klammer, is the dean of Touro College in Jerusalem. He and much of his family live in a community outside of Jerusalem, while some are serving on the front lines. Right now, all are safe. Thank you for your concerns and prayers, and of course, our prayers go out to any of you who have family or friends in Israel.

Also, in response to inquiries about the names of organizations to support Israel, feel free to call us for suggestions.

"As long as people believe in absurdities they will continue to commit atrocities." – Voltaire

"Where there is no respect for life, there you will find evil." – O.R. Melling

"True courage is to stand against evil, even when we stand alone." – Richard C. Edgley

Congrats!

Sally Avalon recently celebrated her 10-year anniversary with Raymond James and earned the title of Senior Registered Client Service Associate. Congratulations to Sally!

Happy Anniversary

70th B. and D.B. of Palm Harbor, FL
68th C. and J.H. of Raymond, MS
67th J and L.L. of Jackson, MS
67th B. and P.D. of Hoover, AL
62nd R. and N.N. of Madison, MS
62nd J. and R.M. of Gainesville, FL
62nd J. and B.H. of Brandon, MS
61st B. and M.H. of Ridgeland, MS
61st J. and M.R. of Mobile, AL
61st L. and L.K. of Florence, MS
60th B. and S.N. of Jackson, MS
50th J. and C.G. of Vicksburg, MS
50th D. and B.S. of Theodore, AL
50th R. and D.N. of Hazlehurst, MS

Special Birthdays

94 B.B. of Palm Harbor, FL
94 S.G. of Jackson, MS
93 D.L. of Sarasota, FL
93 J.E. of Madison, MS
92 C.S. of Flowood, MS
91 L.L. of Jackson, MS
91 S.H. of Alexandria, LA
90 A.G. of Vicksburg, MS
85 A.R. of Mendenhall, MS
85 C.R. of Union, MS
85 S.R. of Houston, TX
85 M.E. of Yonkers, NY

Visitors:

R.N. of Brookhaven, MS
M.G. of Kilmichael, MS
B.W. of Saint Francisville, LA
R.E. of Natchez, MS
P. and A.S. of Vicksburg, MS
J.G. of Vicksburg, MS
S.S. of Vicksburg, MS

Until Next Time,

Arty

Arty Finkelberg, CFA, CFP®
Managing Director, Investments

601.856.1212 • Sally Steen Avalon, CFP®, Editor
1062 Highland Colony Pkwy, Ste 100, Ridgeland, MS 39157-8785 • finkelberginvestments.com