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The Weiss Report

Smart and Steady

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Interest Rates Are Rising. Now What?

These days it is virtually impossible for an investor not to hear about interest rates. TV, print, and Internet sites have all been harping on the topic for multiple years now. For at least three years now interest rates just "had" to go up. We believe that the move has already occurred and this move provides potential opportunities for investors.

While rates have been low recently, this has not always been the case. In 1979, interest rates were significantly higher. Mortgages were being written above 13% and 10 Year Treasury bonds offered yields near 16%. Inflation was near 10%! We have become accustomed to today's low rates. The question hasn't been "if" rates would rise but "when". Perhaps another important question to ask is "how" those rates will rise.

Interest rates have stayed very low for fundamental economic reasons. Popular media would have you believe that the Federal Reserve Board (Fed) directly sets rates. So much of the conversation has been centered on when the Fed would raise rates. While we may not have as loud of a voice, we have routinely explained that the global marketplace sets rates, with the exception of the overnight lending rate.

Improving domestic economic markers are the true reason for the increase in rates. For example, unemployment numbers have consistently improved. While we follow a different measure of unemployment than most in the media, the U6 measurement of unemployment has fallen from near 16% in 2011 to 10.8% in its last report. While this number is still historically high, it is a clear indication that most everyone that can and/or wants a job can find one.

While the unemployment rate has gone down, the amount of money being made by those who are working has gone up. Rising wages are an indication that skilled workers are becoming harder to find, so wages rise to keep employees from seeking higher paying opportunities. Until now, wages had been flat since the banking crisis of 2008. The increase in wages and the decrease in unemployment has the economy poised for higher growth.

Low interest rates, and economic growth rising historically has seeded higher inflation. If the GDP is about to rise from 2% to 3%, the 10 Year Treasury bond rate needs to get closer to 3% as well. We think the relationship of growth to inflationary pressure is the primary driver of this trend. It seems as if the trend of falling interest rates, which have been somewhat constant for 30 years, is likely over.

Changing trends, while stressful, present opportunity. The new trend of rising interest rates is no exception. One opportunity for investors is in municipal bonds.

The default of municipal bonds in places like Detroit, and the recent downgrade of the city of Chicago, raises questions of credit safety in owning municipal bonds. We agree that these kinds of bonds bring some potential for worry. At the root of this worry is the fact that these type of bonds are backed by the taxing authority of the issuer. Obviously if bonds have defaulted or had their ratings slashed it brings doubt into investor's minds that these entities will be able to keep raising taxes.

However, we think there is burgeoning opportunity in the other sector of the municipal bond arena: revenue bonds. Revenue municipal bonds differ from tax backed bonds in a large way. Rather than relying on taxing power, revenue bonds are backed by the revenue of a specific funding source. We believe that select areas offer a higher degree of safety than traditional tax backed bonds.

Airport bonds are an example of revenue bonds where there may be opportunities. The landing fees airlines pay for using the airport backs these bonds. While airline profits can be cyclical, the fact that they must land and take off from airports gives us confidence that an airport's authority to raise these fees should keep the entity operating. Most metropolitan areas only have one airport and those that have multiple major airports are not planning to build another. We are satisfied that as time goes by; the status quo of airport supply should not change.

Another example is Water and Sewer bonds. Like airports, most cities only have one water and sewer supply system. Bonds from these issuers are backed by the revenues of the system. While it may be difficult to raise taxes for tax backed bonds, we are confident that major water and sewer system will be able to price their services to assure their debts can be paid off.

The last areas of revenue bonds to mention are toll road bonds. The major users of these roads are overland trucks. We think it's unlikely that a new way of transferring freight will be invented. Slowly rising user fees assure the roads are maintained well and have adequate assets to repay their debt.
In summary, after 30 years of decline, interest rates have begun their climb. While rates were kept artificially low economic recovery has occurred to the point where interest rates are rising to match expected growth. This changing theme, while scary for some, provides opportunities. We feel that revenue backed bonds vs. the traditional tax backed bond may potentially reduce maturity risk and may be an appropriate option for investors.

WHAT WE EXPECT AHEAD:

Sharp moves in price tend to be exaggerated, with extremes happening at the beginning of sharp movements. With this in mind we think that the spike seen in the interest rate markets will abate soon. Rates on the 10 year Treasury bond have moved from 1.80% last spring to near 2.5% by mid-June. We think this upward move in rates may be nearing its top for now. If we're right, rates could plateau soon and pull back a bit and wait for future data to see if they need to go higher.

In the last issue of TWR, we noted that the stock market may be volatile, but it hasn't gained or lost any real ground all year. By mid-June, this pattern has continued. We believe that the stock market will break out of its five month trading range soon, but we can never really know in which direction. We also believe that this stalemate will be resolved soon.

Last, commodity prices in general have begun to rise again. Our focus is on oil and natural gas prices. Crude oil made a price low in January near $44. As of June 10th, the price has risen to just over $60.

PORTFOLIOS:

In the meetings and conversations we have had with clients this year, we laid out what we thought was a reasonable recovery timetable for our investments in energy infrastructure and pipeline systems. We said that we would need crude oil prices to return to the $70-$75 per barrel range to for the sector to see a more complete recovery. We mentioned that we expected to see this recovery later in 2015. At the current price of $60 per barrel we're heading in the right direction.

Our best performing positions this year have been the result of our strategic shift implemented in November 2014. Prior, we had avoided traditional growth sectors including technology, health care and finance until we saw better data showing the effects of the recession and the implementation of the ACA. After looking at the strength these positions displayed in a flat general market, there is no reason to believe they cannot continue outpacing the market.

Last, we need to comment on bonds and the effects on their prices in the rising interest environment. Those portfolios that have meaningful exposure to fixed income have added an investment that should rise in value should interest rates rise. Those accounts under pressure from bond price declines have an appreciating asset to offset the damage done to values by rising interest rates. While not a perfect hedge, this investment has appreciated while rates have risen. Simply speaking, this tactic is doing its job!

Enclosure #1- is a message to the Gen X or MTV generation from Thestreet.com. So much media attention is dedicated to the retirement saving issue of the Baby Boom generation. However the savings issues of the Gen X generation are widely unreported. The piece is short and concise. Gen Xers have a lot of saving to do if they want to achieve their long term financial goals.

Enclosure #2- is a piece from Financial Advisor magazine. It is about the price wars going in the golf club manufacturing industry. This is really a story about the aging of the Baby Boom(BBs) generation. When BBs were in their 30s and 40s, golf was a booming growth sport. Golf courses were opening coast to coast, and the emergence of Tiger Woods elevated the PGA tour to "big money" status. Now the BBs are turning 70. More golf courses have closed than have opened for a few years now. It was only a matter of time before the golf club makers would struggle for market share.

Enclosure #3-was a piece we found on the Daily Caller web site. Remember 2010 and 2011? All the talk was of the new Chevy Volt and the Nissan Leaf. These electric aided cars were the future and the days of the internal combustion engine were numbered. Now in 2015, we find that many people have been trading in their electric cars and not purchasing a second one. In fact most of the people trading electric cars in are buying SUVs! We at Weiss Wealth Management are not surprised. The electric cars never made economic sense. Thing that don't make sense in traditional economic usually do not survive.

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This report is not intended as a complete description of the securities, markets or developments referred to herein. It should not be viewed as an offer to buy or sell any of the securities mentioned. Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate and complete. Additional information and sources are available upon request.

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There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise.

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

U.S. Treasury Securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

While interest on municipal bonds is generally exempt from federal income tax, it may be subject to the federal alternative minimum tax, or state or local taxes. Municipal bond investments may involve market risk, credit risk, and interest rate risk if sold prior to maturity.

Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

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Enclosure 1

40 Years Old and Screwed for Retirement: MTV Generation Faces Wake-Up Call

By Hal M. Bundrick, CFP | 06/08/15 -

NEW YORK (MainStreet) -- They were "latch-key kids," then MTV teens and now mid-career workers with kids of their own. Gen X, the leading edge of which will turn 50 next year, with the youngest hitting 35, are facing the reality of their looming retirement prospects. And so far, there is much room for improvement.

Gen X was roiled by the Great Recession, losing nearly half of their wealth -- a full 45%. Now, a new study by Northwestern Mutual reveals that Gen X is compounding that major setback with the poorest financial habits of the four generations surveyed. Most respondents characterized themselves as spenders rather than savers, making them the generation most likely to have more debt than savings.

Almost four in 10 -- 37% -- admit they do not "at all feel financially secure," an outlook more pessimistic than any other generation, even the often money-challenged Millennials.

And nearly one-quarter of Gen X is "not at all confident" that they will achieve their financial goals, with their top financial fear including a lack of retirement savings. Remember, this is the generation that may face the ramifications of a shaky Social Security system, the trust funds of which are forecast to be depleted by 2033, according to a recent study by researchers at Harvard and Dartmouth.

"It is not easy being X," said Rebekah Barsch, vice president of financial planning with Northwestern Mutual, in a statement. "Aside from weathering a number of economic cycles, this group is juggling home mortgages, educational debt and lifestyle needs."

Besides having kids of their own -- 44% have children under the age of 18 -- more than one-quarter have a parent or other relative living in the household as well. No wonder 36% of Gen X-ers have trouble paying their mortgage or rent. Nearly one-quarter (23%) have also quit putting money into a 401(k), IRA, or other retirement account, according to the Insured Retirement Institute.

The result: Gen X-ers' median savings for retirement has fallen 15% in the last two years, from $70,400 in 2012 to $59,800 today. Of those who have managed to set aside money for retirement, 42% have less than $50,000 saved.

But facing a potential retirement shortfall, Gen X-ers have something their Boomer parents don't have much of: time to recover. As they cross the 50-year-old yard line, "catch-up" retirement plan contributions kick in, allowing an additional $1,000 to be put into IRAs -- and an extra $6,000 in 401(k)s.

Gen X-ers also have time to pay off their mortgages before retirement, helping reduce monthly budget demands for life after work.

And as their children grow older, expenses may decline, allowing even more financial resources to be allocated to retirement savings -- before their prime earnings years pass.

Facing 40 -- or pushing 50 -- may give the grunge generation something they need most: a wake-up call.

First Trust
Monday Morning OUTLOOK

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Don't Deny The Jobs Recovery

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

You would think that after 63 straight months of growth in private sector payrolls, the longest streak since the 1930s, everyone would agree that the job-market recovery is for real. But, that ain't the case. A quick Google search still uncovers a whole bunch of pessimistic appraisals of jobs and the economy.

Analyzing these pessimists shows they have four major complaints about any supposed strength in the job market.

The first complaint is that the job growth is all or mostly part-time. The numbers on part-timers come from the civilian employment survey, which is very useful over longer periods of time (like a year) but very volatile from month to month.

What does this report show? That in the past year, part-time employment is up 196,000, while overall jobs are up about 3 million. So, guess what? The share of the workforce in part-time jobs has continued to fall – not rise.

Remember, these monthly numbers can be very volatile. So, at least a couple of times per year, the numbers will show that "all" of the jobs in some certain month were part-time. This brings the pessimists out of the woodwork. Rush Limbaugh will talk all day about part-time jobs and Obamacare. But, then, the data go back to normal and we don't hear from the pessimists again (on this issue) until it happens again. Meanwhile, they ignore the opposite trend month after month, while finding something else to complain about.

The second misleading story is that the number of adults not in the labor force (neither working nor looking for work) is at or near a record high. The problem with this claim is that it's both 100% true and 100% irrelevant. The reason it's irrelevant is that because of population growth, the number of non-working adults is usually rising whether we're in recession of not. For example, it grew by more than six million during the economic expansion from 1991 to 2001.

The third misleading pessimistic story about the job market is that the "true" unemployment rate is 10.8%, not the 5.5% the government says. There are multiple problems with this claim. First, what's called the "true" unemployment rate is reported by the government in its monthly jobs data, so it's not like the Labor Department is trying to hide anything.

This more expansive "true" unemployment rate (called the U-6) includes all those counted as unemployed by the regular jobless rate as well as people working part-time who say they'd prefer to work full-time, plus "discouraged" and "marginally-attached" workers. In other words, it is always higher than the regular unemployment rate. Traditionally, in good times or bad, it's about 80% higher. (So when the regular jobless rate was 4.4% back in March 2007, the so called "true" or U-6 unemployment rate was actually 8.0%.)

Today, the "true" unemployment rate is 10.8%, while the regular unemployment rate is 5.5%. This is slightly above the normal relationship between the two measures, but back in 2009, the "true" unemployment rate was 17.1% - so both measures are lower than they were – the labor market is better no matter what data you use.

The last misleading story, which is still widespread, is that there might be more jobs but wages aren't rising. Average hourly earnings are up only 2.3% from a year ago. But with lower energy prices, overall consumer prices are barely higher than a year ago, which means "real" (inflation--adjusted) wages are up about 2% per hour since last year. That easily beats the trend over the past several decades.

The pessimists would be more believable if they said, the economy and jobs would be better with a more free-market set of policies. Lower tax rates, less regulation, and less government spending (particularly on entitlements) would all spur faster growth. But to say things are "awful" is misleading. Investors need to be wary of narratives that use the data to try to trick them into thinking the recovery isn't there at all. It's important for investors to separate politics from economics.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-11 / 7:30 am	Initial Claims – June 6	275K	**275K**		276K
7:30 am	Retail Sales – May	+1.2%	**+1.3%**		0.0%
7:30 am	Retail Sales Ex-Auto – May	+0.8%	**+0.8%**		+0.1%
7:30 am	Import Prices – May	+0.8%	**+2.3%**		-0.3%
7:30 am	Export Prices – May	0.0%	**+0.2%**		-0.7%
9:00 am	Business Inventories – Apr	+0.2%	**+0.2%**		+0.1%
6-12 / 7:30 am	PPI – May	+0.4%	**+0.3%**		-0.4%
7:30 am	"Core" PPI – May	+0.1%	**+0.1%**		-0.2%
9:00 am	U. Mich Consumer Sentiment- Jun	91.2	**91.2**		90.7

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Enclosure 3

Record Numbers Of Drivers Trading In Electric Cars For SUVs

Posted By Michael Bastasch On 3:01 PM 04/21/2015

President Barack Obama promised to put a million more hybrid and electric cars on the road during his tenure, but new research shows drivers are trading them in to buy sports utility vehicles (SUVs).

The auto-research group Edmunds.com found that "22 percent of people who have traded in their hybrids and [electric vehicles] in 2015 bought a new SUV."

This number is higher than the 18.8 percent that did the same last year, but it's double the number that traded in their electric car for an SUV just three years ago. Edmunds.com reports that only "45 percent of this year's hybrid and EV trade-ins have gone toward the purchase of another alternative fuel vehicle, down from just over 60 percent in 2012."

"Never before have loyalty rates for alt-fuel vehicles fallen below 50 percent," Edmunds notes.

In recent years, celebrities and politicians have been hyping electric car companies, like Teslas, as a hip way to help the environment and save money on gasoline. The Obama administration and some states even hand out generous tax credits to encourage people to buy EVs.

Buying an electric car can get you a $7,500 federal tax credit. It's all part of Obama's plan to get a million electric cars on the road by 2015. But electric cars were much more attractive when gas prices were high and customers could more easily rationalize paying more for an electric car. So far, Obama is still more than 800,000 electric cars short of meeting his 2015 goal.

"That's the reality of the situation," Jessica Caldwell, senior analyst at Edmunds.com, told Detroit News. "They have to push them out at those levels for people to be interested. It really seems like the cachet of EVs and hybrids has faded away."

"EVs are just not selling; even hybrids and plug-ins are slow," Caldwell said. "There's some concern."

Why are electric car sales faltering? One reason is that gas prices are far lower than they were in 2012. Edmunds notes that when gas prices were $4.67 per gallon in October 2012 it would take five5 years to make up the price difference between "a Toyota Camry LE Hybrid ($28,230) and a Toyota Camry LE ($24,460)."

With gas prices now at about $2.27 per gallon, Edmunds.com says it would take more than twice as long to save enough on gas to make up the price difference between a Camry LE and a Camry Hybrid.

Electric cars are also facing increased competition from more fuel-efficient vehicles. Aside from market forces, federal fuel efficiency standards have been forcing automakers to increase the miles per gallon of engines.

Electric cars also suffer from issues with battery life. Each hybrid or electric car battery can cost thousands, or even tens of thousands, of dollars, which only helps tip the economic scale in favor of traditional vehicles.

"It wouldn't make sense to replace a 12-year old battery with a new battery that's going to last 12 years, because chances are the car's not going to last that long," Eric Ibara with Kelley Blue Book told Detroit News.