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WEALTH MANAGEMENT, LLC

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The Fixed Income Conundrum

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In the middle of 2013 Werba Rubin did a firm wide conference call with our clients to discuss bond portfolios. At that time the Federal Reserve had announced that they would be strongly considering raising the interest rate. The belief was that once the rates were raised on banks, interest rates across the board were inevitable. A rise in interest rates would mean that the long term (and perhaps not-so-long-term) bond market would falter.

We proactively engaged many of our clients and many chose to move to shorter-term bond solutions. Shorter term bonds meant less risk, but they also meant less yield. Committed to the mantra "take risk in the stock market, use bonds for safety" we felt comfortable with that trade off especially with a looming rise in interest rates. Two years later, we are still waiting for the Fed to raise rates, and we have been stuck with less than mediocre returns on the bond investments.

With many clients not happy with their fixed income return, we have investigated a number of different avenues to generate more yield for our clients over the last couple of years, and have researched the best options that still fit into our core belief in keeping the bond maturities short and the quality high. With this in mind, we have not found anything that has fit into our requirements and delivered more yield. Below are some examples of where our research has taken us:

1. **CDs.** We often think about CDs as being a brick and mortar bank product, but there is a market for CDs that our custodians have access to. Pros: Can be very short term, FDIC insured; Cons: Require constant maintenance for reinvestment and maturity, not that much more in interest for short term products
2. **Fixed Annuities**. A fixed annuity is a lot like a CD, but it's backed by an insurance company. It also has surrender charges associated with it. Pros: higher rates of interest than current; Cons: illiquidity/surrender charges, minimum three years
3. **Fixed-Indexed Annuities**. A fixed-indexed annuity is blend of bonds and stocks. The insurance company lets the investor keep the returns of a set index up to a certain percentage (somewhere around 3%-5%), if the market has a negative year, the investor gets nothing, but doesn't lose money. Pros: potentially good returns for fixed income, no downside market risk; Cons: illiquidity/surrender charges, minimum five years
4. **Peer to Peer Lending**. Lending Club provides this kind of arrangement. Private individuals loan money to other individuals. Investors can choose to partially fund loans down to $25. Even well qualified borrowers will pay around 7%. Pros: much higher rate of interest, all online; Cons: Original loans are at least 36 months; loan trading gets complicated with premiums and discounts; risk of borrower default

We are committed to finding the best products and services for our clients, but we will not turn our back on academic research which indicates that long term bonds just don't provide adequate return for the risk. In addition, sacrificing liquidity is dangerous and we have made a conscious decision not to place our clients into something that can be easily, and inexpensively undone.

All investments involve risk, including the loss of principal and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

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Are You Ready for the Social Side of Your Retirement? (Quiz)

MASS MUTUAL FINANCIAL GROUP

Test your Social Security knowledge with this brief quiz.

When it comes to planning your retirement and deciding when to file for Social Security, everyone's situation is unique. The following questions will help you assess your situation, and may identify some factors that you have not considered. After all, getting an accurate picture of your options may be the key to getting the most out of your retirement.

1. Social Security retirement benefits are based on my earnings history, so I'll receive the same monthly benefit amount no matter when I start collecting.

   ☐ True ☐ False

2. If my spouse dies, I will continue to receive both my own benefit and my deceased spouse's benefit.

   ☐ True ☐ False

3. I must be a U.S. citizen to collect Social Security retirement benefits.

   ☐ True ☐ False

4. Under current Social Security law, full retirement age is 65.

   ☐ True ☐ False

5. I can continue working while collecting my full Social Security retirement benefits – regardless of my age.

   ☐ True ☐ False

6. If I file for retirement benefits and have minor dependent children, they also may qualify for Social Security benefits.

   ☐ True ☐ False

7. As a divorced person, I can collect Social Security retirement benefits based on my ex-spouse's earnings history.

   ☐ True ☐ False

8. Once I start collecting Social Security, my benefit payments will never change.

   ☐ True ☐ False

9. Government workers may have their Social Security retirement benefits reduced.

   ☐ True ☐ False

10. My spouse can qualify for Social Security retirement benefits, even if he or she has no individual earnings history.

    ☐ True ☐ False

Answers:
1. False, 2. False, 3. False, 4. False, 5. False, 6. True, 7. True, 8. False, 9. True, 10. True

10 Correct:
Congratulations! You've done your homework.

7-9 Correct:
Not bad; but a little brushing up may be in order.

5-6 Correct:
Hmmm...it's worth doing some research to learn more.

1-4 Correct:
Uh-oh! What you don't know really could hurt you!