

Dealing with Bond Price Fluctuations

There are two primary factors that affect bond prices — interest rate changes and credit rating changes. Interest rate changes typically will cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond's price adjusts down, while the bond's price will increase when rates decrease. Simply put, bond prices and interest rates move in the opposite direction. Also, bonds with longer maturity dates are more vulnerable to interest rate changes, since the difference will impact the bond for a longer time period.

Credit ratings also influence a bond's price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond's investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond's price tends to decline when a rating is downgraded and increase when a rating is upgraded. Certain downgrades are more significant, such as a downgrade that moves a bond from an investment-grade to a speculative rating, a downgrade of more than one notch, and a series of downgrades over a short period of time.

If you want to minimize the risk of price fluctuations, consider these tips:

- ✓ If you hold a bond to maturity, you receive the full principal value, so you won't be affected by any price fluctuations.
- ✓ Consider investing in bonds with shorter-term maturities, which are less susceptible to interest rate changes.

✓ Design your bond portfolio using a ladder, so you'll have bonds coming due every year or so. This strategy typically lessens the effects of interest rate changes. Since the bonds are held to maturity, changing interest rates won't result in a gain or loss from a sale. Bonds are maturing every year or two,

so your principal is reinvested over a period of time instead of in one lump sum.

✓ Choose bonds that match your risk tolerance. Safer bonds, such as U.S. Treasury bonds or investment-grade corporate bonds, are less susceptible to credit rating risks. ○○○

A Personal Note from Global Wealth Advisors

2023 started off well in January with major US stock indices posting strong returns for the month. Gross Domestic Product (GDP) was reported to have grown at an annualized pace of 2.9% in the fourth quarter of 2022. In addition, the December Consumer Price Index (CPI) fell .10%, reflecting lower prices for energy and food. Inflation was running about 5%, down from 7% in June of last year.

As anticipated, February started with the Federal Reserve Board raising interest rates by a ¼ percent and attention was now drawn to the rate that inflation was slowing, instead of the direction. Although February was a down month for the US equity markets, the positive results of January kept the S&P 500 Large Cap, S&P 400 Mid Cap and the S&P 600 Small Cap indices in positive territory.

March's biggest news here at home was the takeover of Silicon Valley Bank (SVB) by the Federal Deposit Insurance Corporation (FDIC). Depositors withdrew funds after hearing of the large losses the bank had taken on its bond portfolios and that left SVB insolvent. The Fed's raised interest rates again by .25% to 4.75% - 5.00% as they strive to further reduce inflation and its effects in our economy.

This continued volatility and uncertainty in both the equity markets and the US economy is likely going to continue for the rest of 2023 as corporate earnings are reduced and interest rates continue to rise as the Fed's try to lower inflation to its target rate of 2.0%. This is part of the economic cycle of mostly expansion with some contraction and this helps to 'reset' the economic engine of the economy. ○○○

People Have Memories. Markets Don't.

By: David Booth,
Executive Chairman & Founder
Dimensional Fund Advisors LP
January 13, 2023.

One of the best things about markets is that they don't have memories. They don't remember what happened last week or last year. They don't even remember what happened a minute ago. Prices change based on what's happening right now and what people think will happen in the future. People have memories. Markets don't. And that's a good thing.

So, as you start 2023, take a lesson from the market. Don't begin this new year bogged down by what happened last year. Give yourself the opportunity to start fresh.

Every day in publicly traded financial markets, buyers and sellers negotiate prices for every stock and bond. To agree, they have to find a price that they both think is a good deal. This happens over and over, millions of times a day. Then it starts all over again the next day. Unlike people, markets don't think about the past. It's about today and expectations for the future.

Markets must be forward-looking to set prices that entice buyers to buy. But prices can't be too low, or sellers won't sell. Every piece of available information feeds into the decision-making process so everyone involved can agree on the price for a particular security at a particular moment.

Markets are smarter and faster than you and me. While you've been reading this, markets have probably factored in thousands of pieces of new information and adjusted the prices of thousands of different company securities.

That's good news. Markets do the work, so you don't have to. You don't need to believe in magic or be able to predict the future to have a good investment experience. Some people might think I'm giving the market too much credit. But over more than 50 years in finance I've come to realize that I'm just being realistic. Someone described it to me as "science-based hope."

Academic research gives us insights into investing. Over the past century, markets have returned on average about 10% a year, although almost

never that amount in any given year.¹ And the annualized inflation-adjusted return on US stocks is 7.3% going back to 1926.² Because of big swings year to year, trying to time markets is a losing game. So don't try to outguess markets—go with them. Come up with a plan, take no more risk than you can tolerate, and go spend some time with your loved ones.

Investing has inherent risks. And no matter what anyone tells you, there are no guarantees. But if you don't have enough cash to live off for the rest of your life, what choice do you have but to invest? Control what you can control so you can set yourself up for success, and then give yourself some grace. Judge yourself by the quality of your decisions and not by their outcomes. There are so many factors outside your control that can impact investment returns.

I believe one of the worst things investors can do is to impose their memory on their view of markets. Because then they might "see" patterns that aren't there and make choices that aren't based on research or evidence.

It can feel daunting to develop an investment plan you can stick with and determine the level of risk that's right for you. But few things are more

important than how you invest your life savings. That's why most people would probably benefit from a financial advisor to help them talk it all out.

When it comes to investing, the key is not to try to outsmart the market, but to understand how it works and use that knowledge to your advantage. The market is a great information processing machine. It runs on human ingenuity, which is why returns tend to grow over time as people work to innovate and improve the value of the companies they work for.

So, start the new year off with a clean slate—just like markets do every day. ○○○

¹ In US dollars. S&P 500 Index annual returns 1926–2021. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

² Based on non-seasonally adjusted 12-month percentage change in Consumer Price Index for All Urban Consumers (CPI-U). Source: US Bureau of Labor Statistics.

Financial Thoughts

In a recent survey, when asked what the best long-term investment is, 35% of Americans said real estate, 21% indicated stocks/mutual funds, 17% said savings accounts/CDs, 16% indicated gold, and 8% said bonds (Source: [Financesonline.com](https://www.financialresearchonline.com), March 2022).

As of March 2022, the six biggest companies comprised 25% of the total stock market index — Apple, Microsoft, Alphabet, Amazon, Meta, and Tesla. These same six companies represented 40% of the total value of Nasdaq (Source: *The Ultimate List of Investing Statistics for 2022*, March 2022).

Approximately 26% of students under age 40 who attended private for-profit colleges were behind on student loan payments in 2020 (Source: Federal Reserve, 2022).

About 35% of Americans changed their retirement timeline due to COVID 19. Almost 24% plan to retire later than initially planned, while 11% plan to retire earlier (Source: Northwestern Mutual, 2022).

In 2020, 82% of married couples considered themselves doing at least okay financially, while only 67% of single individuals felt the same way (Source: Federal Reserve, 2022). ○○○

Myths about College Planning

The college planning, admission, and financial aid process can seem opaque to both students and their parents. And given all the concerns about rising tuition and confusion about how aid is allotted, it's not surprising that some myths have arisen about the best way to plan for college costs.

The truth is that much conventional wisdom about college planning is more fiction than fact. Below, we bust some of the biggest college planning myths so you'll be better prepared to give your children the start in life they deserve.

Myth #1: We earn too much to qualify for financial aid. Some families with high incomes and a lot of assets may indeed not qualify for need-based financial aid. But chances are, you aren't one of them. The truth is, financial aid formulas are complicated, and it's hard to predict how much or what type of aid you might get if you don't apply. Filling out the Free Application for Federal Student Aid (FAFSA) as well as any institutional aid forms is almost always worth it, just to see what happens.

Myth #2: I'll never be able to afford to send my child to a private school. There's no doubt that private colleges and universities are expensive, and there's a lot of debate about whether they're worth the cost. But

keep in mind that while the sticker price may be high, private schools typically have more money to spend on financial aid than their public counterparts. And if a student is exceptionally talented, a private school may offer generous financial aid to encourage him/her to attend. If your child is considering private schools, research the net price, not the sticker price, to get a sense of what it might really cost to attend. You should be able to find calculators to help make these estimates on a school's website.

Myth #3: It's better to borrow money from my retirement accounts for tuition than to have my child take out student loans. Borrowing money from your 401(k) or other retirement accounts to pay for college is not always a good idea. Unless you've oversaved for retirement (and few people have), you're going to need that money when you stop working. Pausing your contributions or drawing down your balance will set you back significantly. While you don't want to overburden your kids with debt, a small amount in student loans may give them skin in the game, so to speak — and modest student loan debt at a low interest rate won't jeopardize your child's future. By keeping your retirement savings safe, you'll also be less likely to have to turn to your children in the future for financial help.

Myth #4: I'm not sure my child will attend a four-year college, so I shouldn't bother to set up a 529 plan. The funds you put in a 529 plan can be used for qualified expenses at a wide variety of schools, including community colleges and accredited trade and vocational schools. You can even use the money at some foreign schools. Plus, if your child ends up not needing the money, you can name a new beneficiary for the funds, like another child, your brother or sister, a niece or nephew — even yourself. In the worst-case sce-

nario, you simply use the money for noncollege expenses, though that comes with a penalty. But whatever you do, don't let the chance that your child won't attend school stop you from saving.

Myth #5: My child is a genius or a great athlete. I'm sure they'll get a scholarship, so I don't need to save. Scholarships are a great way to help with college, and a significant amount in gift aid for education is awarded to students every year. But unless your child is a true phenom, you can't be sure he'll get a piece of that pie — or how much, if he does. Plus, you really should start saving for college when your children are very young, well before you have any idea of whether they're math geniuses or football stars.

Myth #6: We should put all the money we save for college in a 529 plan. Not necessarily. A 529 plan has many advantages, like tax-free withdrawals for educational expenses. But you may want to diversify your savings. If your son or daughter gets a scholarship, drops out, or doesn't attend college, you can use those other savings however you want, without paying a penalty (unlike a 529 plan).

Myth #7: I should put college savings in my children's names. It certainly seems like it might be a good idea to keep your child's college savings in his/her own name. But that's not always a good idea. For one, college financial aid formulas generally see 20% of a student's total assets as being available to pay for education every year, compared to just 5.6% of a parent's assets. More assets in their name could translate into less financial aid for your child. Plus, once your child turns 18, that money is his/her to do with as he/she wishes (unless it's money held in a trust with restrictions on its use). Not all young adults will have the wisdom to use that money wisely. ○○○



Estate Planning for Complicated Family Situations

In our modern and increasingly complex society, planning for the future is not always straightforward. Divorce and remarriage, blended families, children with disabilities, or even a financially irresponsible child can complicate estate planning to the point where procrastination is tempting. If any of these situations apply to you, the reality is you should have a well-thought-out estate plan in place. While accommodating all of your loved ones is a delicate balancing act with many variables to consider, the reward is peace of mind in knowing that your spouse and children will be cared for in the best possible way following your death.

If You Are Divorced

One of your top priorities is updating your beneficiaries, last will, trusts (along with the executor/trustee), durable power of attorney, and health-care proxy. Likewise, because you no longer have the benefit of combining your estate and inheritance tax exemptions with a spouse, you may need to consider more strategic estate planning to avoid estate taxes.

If there are children involved, you have even more decisions, including guardians of any minor children. Typically, you will not want your former spouse or his/her new blended family to receive any of your assets.

While you can name anyone as your beneficiary on life insurance policies, annuities, retirement accounts (if permitted by your plan), IRAs, and health savings accounts, your children typically cannot receive these funds until they turn 18. In the meantime, your children's appointed guardian, such as their surviving parent, could be designated by the court to manage these monies until they reach adulthood. Proper estate planning can avoid any mishandling of those funds and pro-

vide you with the reassurance that your children will be financially protected.

One way to ensure this outcome is to set up a trust with an appointed trustee, such as a grandparent, aunt, or godparent.

If You Have Remarried

While remarrying is a beautiful reminder that second chances really do exist, this can often complicate estate planning — particularly when at least one spouse has children from another marriage. The first step is to sit down with your spouse and discuss what you both feel is fair for each other and your children, perhaps categorizing what is yours, mine, and ours to reach a decision.

Because of state marital estate laws, unless you have a prenuptial agreement in place, your current spouse has legal entitlement to up to half of your estate, regardless of what your will may designate.

Assuring that your surviving spouse is provided for while leaving a legacy for your children can be a frail matter; it's important to have a plan intact that assures both your spouse and children receive what you intend. You might consider a trust, such as a marital trust, qualified terminable interest property trust (QTIP), or irrevocable life insurance trust (ILIT) that can provide lifetime income to your surviving spouse, while simultaneously ensuring that your heirs receive the remaining proceeds.

A Special Needs Child

Understandably, parents of a special needs child are often so distracted with accommodating their children's immediate needs that important financial matters are overlooked. The consequences of putting off estate planning are far worse in these situations.

The two most important factors to consider are preserving your child's eligibility for Medicaid and other essential benefits while continuing to provide the best possible lifestyle for him/her. However, without a proper action plan, an inheritance could disqualify your special needs child from vital benefits.

To avoid this situation, parents often leave special needs children out of the inheritance equation, listing other siblings or a designated guardian as heirs with the intention that their special needs child will be provided for as he/she continues to receive necessary medical benefits. The truth is, misuse of these intended funds is always a possibility, as intentions and reality often do not mesh. A much more reassuring path is to consider a special needs trust, which can assure that your child continues to qualify for medical benefits while providing a sound financial future that can include special trips, therapeutic lessons, and life-enhancing activities.

An Irresponsible Adult Child

It's quite common for parents to worry that a child could get into serious trouble when presented with a large sum of money. This depends on a variety of factors, such as age at the time of inheritance, lifestyle, or even addiction issues. Consider establishing a trust — such as a spendthrift trust or even an incentive trust — where the appointed trustee can limit your child's inheritance to several installments throughout the course of his/her lifetime (even on an annual basis if you so wish), place conditions such as good behavior on the disbursements, or even appropriate the funds for something as specific as college tuition.

Please call to discuss this topic in more detail. ○○○

Global Wealth Advisors LLC

200 East Big Beaver Road • Troy, MI 48063 • Phone: 248-457-4555 • www.gwallc.com

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