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Wednesday, July 10, 2013

WHY?

Your portfolio - which has a lot of bonds, preferred stock, and higher yielding stocks -
is not increasing in value!
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INTEREST RATES ARE RISING

As I review portfolios using the June statements, it is apparent that the higher interest rates are impacting the market valuation of our portfolios in a negative manner. How can we counteract this drag on the increasing value of the income that is being generated internally from interest payments?

BE SURE TO CONTACT US AND MAKE A MEETING TIME, IF YOU LIKE

Back in February of this year, we made the following recommendations:

1. **Review your investment strategy and focus on your targeted mix of equities to Fixed Income.**
2. **For the coming 6 months, invest available cash that comes into your account from the pay-down of fixed income securities, into your equity mutual fund allocation, rebalancing as you invest.**
3. **When the targeted percentage of equities to fixed income is achieved, then cease this process and reinvest all cash that comes into the account from maturing securities, back into fixed income assets – bonds, preferred stock, structured product, multiple limited partnerships, high dividend stocks.**

Many of you chose to begin moving money back into the stock market, but most were very timid about how much money to invest in stocks. If you follow your investment portfolio values closely, you are seeing that those values - in some cases - have gone down rather than up. In fact, this has been happening for several months, but not as dramatically as occurred in June, when interest rates went up by about 1%. Higher interest rates effect the valuations of all fixed income assets - bonds, preferred stock, structured product, multiple limited partnerships, high dividend stocks.

What opportunities occur, and how do higher interest rates affect your bond portfolio investments?

- In the first place, higher rates allow us to buy higher yielding bond investments, thereby increasing our interest income pot.
- Because about 15% of our bond portfolios pay off every year, that money is being invested at these higher rates.
- On the other hand, the market value of our bonds is going down as interest rates go up.
- Our investments are not growing and in some cases are losing money.
- Since we are not going to sell our bonds, the daily price of those bonds does not affect the income generated within the investment portfolio.

How do we make our portfolios grow, and take advantage of what is likely to be a long term bull market?

1. Reinvest the cash that comes from bonds that pay off, into stocks, rather than buying more bonds.
2. Focus on the US equities markets; add higher levels of small cap stocks; reduce investment in the emerging markets and underdeveloped countries; reduce investments in gold
3. Construct a balanced investment portfolio, using good mutual fund managers.
4. Take advantage of the market opportunities provided by diversification and investment correlation.
5. Build your portfolio to reflect the characteristics of a long term growth economy.
6. Believe that the last 12 years have been sufficient time to deleverage and restructure the US economy.
7. Balance your investment portfolio with the income generated by your bond portfolio.

RETIREMENT PLANNING

- The goal for our investment strategy is to create a lifetime income sufficient to support our future "habits".
- That means we want to create a steady cash flow, one that we can count on, and one that is not subject to the volatility of the stock market.
- This is the purpose of the fixed income (bond) portfolio - to provide cash flow and to reduce the volatility from the stock market.
- Annuities that have lifetime income riders are also an important asset to consider.

SIDE NOTE REGARDING BONDS

You are hearing a lot of pundits say that owning bonds is a bad idea today. What they are referring to is owning bond funds and EFT's (exchange traded funds). When you own a maturity ladder of individual securities, you do not have to worry about interest rate risk. All of your bonds will mature at full face value. In the meantime, you receive the interest income.
The Individual securities provide better cash flows.
Holding bonds in your portfolio provides stability to the total portfolio - when it includes stocks - when the market goes down.
Every investment portfolio should have both stocks and fixed income investments.

A SIDE,SIDE NOTE

It is time to own stocks in your investment portfolio. We recommended buying equities as early as October, 2009, but if you have not done so thus far, it is time to reconsider. Stocks will provide the growth component that you cannot get from owning just fixed income. Everyone should have at least 30% of their portfolio in stocks; 50% is a very reasonable amount of equities for those in retirement; and 70% equities is recommended for the youth in our mix!

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