THE FARESE GROUP
YOUR PARTNER IN RETIREMENT

Plan for The Worst, Hope for The Best

If you attended our client appreciation event in Jackson, MS earlier this year, then you might remember our prediction that a market pullback would occur within the next 6 months. These are not the kind of calls you want to be correct on, as the Dow dropped more than a 1,000 points on Monday, and equity markets seem poised for continued volatility.

Hopefully, you can take comfort in knowing that we've been prepared for such move for a while now. Furthermore, when creating our clients income distribution and retirement plans, we always prepare for the worst and hope for the best. If I have learned anything managing money for the past 15 years, it's how to plan for the worst case scenarios.

Risk management (and planning for the worst on the front end) should be commonplace when sitting down with an advisor. I cannot speak for others, but I want all of our clients to know this: your money is invested in a manner that takes market crashes into consideration. Most of you have some form of insurance around a portion of your nest egg, protecting the income needed now or in the future.

Finally, I want to comment on the Federal Reserve and share my opinion of where I think interest rates are going in the short term. Over the past few months, there has been a lot of discussion about the Fed raising interest rates sometime between now and December. Obviously, this line of thinking was before the hemorrhaging we've witnessed these last few trading days. It is therefore my opinion that Fed will not be able to raise rates, wanting to avoid precipitating the bursting of the equity bubble.

I mention the above due to some questions we've gotten about bond funds and how they might react to rising interest rates. Let me do my best to address this. First, individual bonds typically drop in value when interest rates rise. The reason for this is the value of the bond is likely paying less interest than a similar bond that can be bought on the street. So, what about bond funds? Well, bond funds are made up of several different individual bonds managed by a portfolio manager.

Bond fund NAV (prices) can be negatively impacted by rising interest rates. This loss in share price can be mitigated by the increased dividend payments. The point being this: I do not see the Fed raising rates anytime soon. I see many investors running for the door out of equities and into the traditionally less risky bond fund market. With prices already low due to anticipation of a rate hike, we feel this is an asset class that continues to be a suitable investment for our clients.

To close, I want to remind you of 2008. Remember how scary it was for investors from October through May? Many people tried to stay invested, not wanting to sell at the low and miss the eventual recovery. Most investors who did not sell during this time, out of panic, witnessed their account values rebound more than 30% in 2009. Markets rise and markets fall, today, maybe more violently than in times past. All that being said, as long as you have planned for the worst, you can be hopeful that the best is yet to come.
