THE FINANCE COUPLE™

TWC WEALTH MANAGEMENT

Planning to Prepare

Feb 2019

"The time to repair the roof is when the sun is shining." - John F. Kennedy

The United States is currently in the midst of a long-term economic expansion. In spite of the massive dysfunction in Washington, D.C., we have historically low unemployment and high levels of satisfaction. Aside from the recent correction, we are also still in the midst of historically low interest rates and an ongoing bull market. But after twenty-three years of being in this business, and fifty years of walking the Earth, one thing I know for sure is that the only constant in life is change. As sure as night follows day, we believe we will face tougher times in the future.

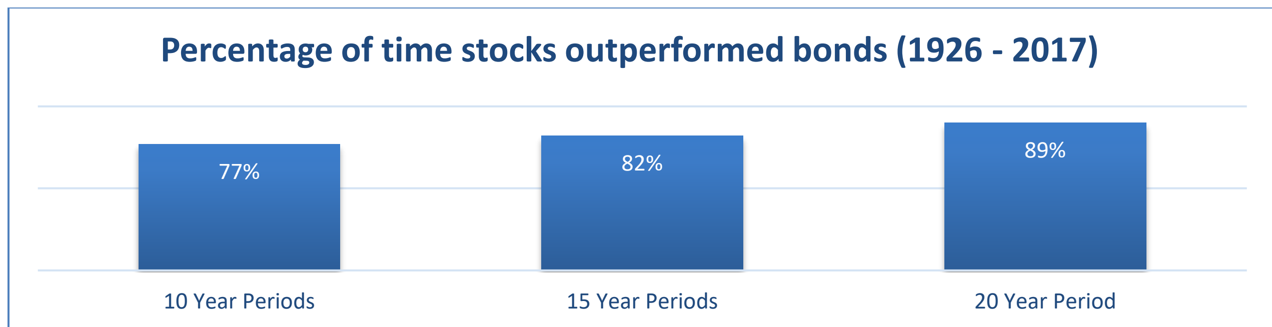
This is not pessimism so much as it is realism since the economies and markets of the world have always had their ups and downs. Though we do believe that 2019 may be a decent year (aside from a black swan appearing), we also worry a recession will come to pass in the next few years - understanding that recessions may be a natural and healthy occurrence, if for no other reason than to correct excesses that tend to accompany a bull market and economy. So, just as JFK recommended years ago, it is only prudent to prepare for a rainy day while the sun is still shining.

Accordingly, we have been looking to adjust the fixed income portion of investment portfolios. As a note, most bonds are rated either investment grade (AAA, AA, A and BBB) or non-investment grade (also called junk or high yield; BB, B, CCC, CC, C, D) based on the issuer's creditworthiness, which is essentially the financial ability to make interest payments and repay a loan at maturity. The higher the rating the better the chance of getting paid; for instance, AAA bonds tend to be more reliable than A bonds, and much more reliable than CC bonds. For our part, we have been getting concerned that not only are bond yields low on a historical basis, but the covenants within the bonds have also been getting weaker; in our eyes, that means more risk with less return. Evidence also shows that these "so-called 'covenant-lite' loans accounted for more than 75% of new loans in 2018, an increase of 30% from the peak of the debt boom that occurred in 2007." (Barron's, Nov 29, 2018)

Although we still hold some higher-yielding positions, mainly through closed-end bond funds and the like, we have sought to liquidate most junk bond positions as well as some lower investment grade positions (think BBB and A ratings). There is, of course, no guarantee that this adjustment will bear fruit in tougher times, and we may be early by making these adjustments, but we believe that proactive is better than reactive, just as early is better than late.

As for the stock market, we do not recommend selling anything due to our overall equity philosophy, namely that you should never own stock unless you have a minimum holding period of ten years, and the more the better as witnessed by the chart below. We believe time is the only

hedge against the inherent risk in stocks, and even then we are required to remind you that past performance is no indication of future results. In any event, since ten years is much longer than the possible start of the next recession (0-3 years?), there is no need to make an adjustment.



On a similar note, please know that we practice what we preach. Not only do we seek to own similar investment instruments that most of our clients own, but we also make adjustments personally and professionally when prudent. For instance, due to our concern that the commercial market has become overheated where our office is located, we now prefer to be renters instead of owners. Thus, we sold our office condo and will relocate to a new office about one mile south of our old location. The address, which is temporary while we find the next best long-term location, is: (starting on March 12th) 13850 Ballantyne Corporate Place, Suite 500, Charlotte, NC, 28277.

Again, please don't mistake this newsletter discussion as pessimistic; to reiterate, we are actually quite optimistic for 2019. Although we see some overvaluation in certain pockets of the economy, like real estate possibly, we (and LPL Research) do not see evidence of the over-borrowing or over-spending that can cause problems. But we have always sought to be proactive planners, and we simply wouldn't be doing our job if we didn't look beyond the next year or two; or in other words, hope for the sun to continue to shine, but plan for a rainy day.

As always, thanks so much for your referrals – it's the nicest compliment you give to us. And feel free to email or call with any questions; we are always here for you. Have a great February!

R. Timothy Curran, JD, CFP®

tcurran@lpl.com Direct 704.499-9703

* Past performance is no guarantee of future results. During the applicable time period, from 01/01/1926 through 12/31/2017, there were 83 ten-year calendar periods, 78 fifteen-year calendar periods, and 73 twenty-year calendar periods. An index is not managed and you cannot invest directly in an index. Stocks represented by the Standard & Poor's 500 Stock Composite Index (S&P 500) 1957-2017, and the S&P 90 1926-1956; bonds by the Citigroup long-term, high-grade corporate bond total return index; cash by US Treasury Bills, measured by rolling over each month a one-bill portfolio containing, at the beginning of each month, the bill having the shortest maturity not less than one month. Inflation measured by the Consumer Price Index for all urban consumers, not seasonally adjusted. Treasury bills and government bonds, unlike stocks and corporate bonds, are guaranteed by the U.S. government and if held to maturity offer a fixed rate of return and fixed principal. Yield and market value of bonds will fluctuate prior to maturity. The principal value of an investment in stocks fluctuates with changes in market conditions. Dividends are not guaranteed and are subject to change or elimination. Standard deviation measures the dispersion of a set of data from its mean; the more spread apart the data, the higher the deviation.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through TWC Wealth Management, a Registered Investment Advisor. TWC Wealth Management and The Finance Couple™ are separate entities from LPL Financial.