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KEEP CALM AND CARRY ON

By Fred Dunbar

As I write this, the markets are closed to commemorate Presidents Day, a federal holiday. Hopefully you have taken a deep breath and not panicked. Since the beginning of the year, the S&P 500 is down 8.8%, closing in on correction territory. A market correction is a market decline that is more than 10% but less than 20%. It's called a correction because historically the market drop often corrects and returns prices to the longer-term trend.

I recently returned from a conference hosted by our broker-dealer, Commonwealth Financial Network. It was held in Nevis, a small island in the West Indies. Most of the attendees noted that our travels were similar to the classic 1987 comedy film "Planes, Trains & Automobiles" starring John Candy and Steve Martin and written by John Hughes. To get there, we took two planes, a car, and a boat. In addition to a 12-hour-plus travel day, we had to have a PCR COVID test 72 hours prior to our arrival with the results uploaded to the St. Kitts/Nevis government along with our vaccination card and passport. You had to receive an e-mail back from the government stating that you were allowed to enter their country. To return home, you had to have an antigen COVID test 24 hours before traveling back to the U.S. All in all, once you got there, it felt like a return to normalcy, whatever that is today.

At the conference, I had the opportunity to hear industry experts, including Commonwealth's chief investment officer, Brad McMillan, offer their views on what is happening.

Medical risks seem to be improving, with approximately 64% of all Americans fully vaccinated and 28% having received a booster dose. At the end of January, the average daily new COVID cases were down more than 40% compared to the peak of the omicron variant. Last year brought us a long way back to normal. Despite the various COVID strains, our country remained open and our economy is getting closer to a pre-pandemic level. We have seen high upticks in job growth, increases in wages, and for the most part businesses remain confident.

That being said, there certainly are some headwinds, which will continue to affect the markets. The job market continues to have more openings than workers, and supply-chain issues remain. Both should let up this year. Supply chains are already on the mend as companies have started to figure this out. For example, shippers have been diverting some cargo ships that were anchored off the congested southern California ports to East Coast ports.

The Federal Reserve has signaled that it will raise interest rates several times this year, starting in March. Although there are different opinions, most of the big investment banks expect four to six rate increases this year. A common theme is the Fed will roll out a half-point rate hike in March followed by quarter-point hikes, maybe four times over the balance of 2022. Only time will tell. If you watch financial shows, this is generally referred to as a tightening of Fed policy. It should not thwart the recovery, but it may play havoc with the stock market.

Companies have certainly improved operations and margins since the start of the pandemic. They've cut costs and learned to have employees work remotely, which has helped their efficiencies. Companies are now talking about employees returning to the office but generally on a hybrid basis. They will allow

employees to work from home two days a week and work in the office three days. There are some companies that have said employees can work remotely for the foreseeable future.

Geopolitical events are also affecting the markets. The headline news about China's production growth missing expectations and the Russian invasion of Ukraine have added to the uncertainty of global economic growth. Frankly, Vladimir Putin seems to be in the news daily, and the world is discussing sanctions against Russia. Congress still cannot get out of its own way as it continues to debate the Build Back Better Act. The only thing positive is that we may not see any income-tax rate changes, due to the midterm elections this year. Lastly, inflation has accelerated to 7.5%, the highest since 1982. This is hitting everyone where it hurts — in their wallets.

Chances are your investments have been affected. The question is, how have you reacted to what is going on? The stock and bond markets are down, and banks continue to pay very little interest on your savings and money market accounts. It is my hope that nobody reading this article panicked.

I've written over the years that you should always base your investment portfolio on your risk tolerance. You should have a SWAN (sleep well at night) portfolio. If you've done this, then you should not worry about what is happening right now. Everything will settle down. You can't time the markets, so you should rebalance your portfolio as you go along. If you do this twice a year, your portfolio should withstand the test of time. There will be ebbs and flows in the markets, but in the long run your portfolio should do well.

That being said, there are a few things you can do with your bond portfolio that may be helpful. Take a look at the duration of the bonds in your portfolio. The duration is a measurement of the investment's sensitivity to a change in interest rates. As an example, assume a bond mutual fund holds 100 bonds with an average effective duration of six years. If interest rates rise instantaneously by 1%, the bond fund may be expected to lose 6% of its value based on its effective duration. So, if you are invested in intermediate-term bonds, you may want to shorten the duration of your bond portfolio. If your bond fund has an average effective duration of two years, then a 1% rate increase may cause your bonds to go down by 2%. If you're are invested in a bond fund, chances are they will have bonds that may mature daily and if so, they will be buying new bonds as well.

Another thing that may help provide income from your portfolio can be real estate. I'm talking about a REIT (Real Estate Investment Trust) investing in multi-family housing, single-family housing, and industrial properties. With companies looking to have workers return on a hybrid basis, you may want to stay away from office buildings. Investing in real estate will help keep pace with inflation with increasing rents. Depending on which real estate fund you have, the dividend yields may be higher than your bond funds. Of course, total returns will be affected by the markets, but if you're holding investments for the long term, they should do well.

Remember, nothing is as constant as change. There may be many things that cause you to feel uneasy, but if you have rebalanced your portfolio semi-annually, then there's nothing to fear with your investments. Markets will always have volatility, and governments may not always act in the best interest of its citizens, so stay invested for the long term.

Hopefully, you will not have to change your portfolio much and can just make some minor changes. If you are uncertain what to do, I recommend working with a fee-based adviser who can help provide some clarity to your portfolio. Today, as I finish writing, I realize that Memorial Day is only 98 days away.

With supply-chain issues, there is no better time to order your new beach chair and purchase sunscreen as you get ready to enjoy a warm summer on the beach.

Fred Dunbar, CLU®, ChFC®, RFC®, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He also offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you "down the shore" at 6606 Central Avenue N. Sea Isle City, NJ. 08243.

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"Investments in real estate have various risks including possible lack of liquidity and devaluation based on adverse economic and regulatory changes."