J | M
BROWN
FINANCIAL PARTNERS

Weekly Market Commentary
October 25th, 2021

Stocks Keep Rolling On…. Should You Even Care About Bonds?

Three reasons to consider bonds, even with yields low

As the economic expansion progresses, inflation cools next year but likely settles in a higher number than the last decade. Also, central banks start to normalize policy, and we expect longer-term yields to trend modestly higher. Despite the headwind of potentially rising rates, which pressures prices, there are still good reasons investors should consider bonds. A diversified bond portfolio can:

1. **Offer income and lessen the cash drag** - Investors that rely on stable and continuous payments, or those that are trying to match expected future expenses, can build an investment strategy around the interest payments that a fixed-income portfolio can generate. Holding an excess amount of cash beyond what is needed for everyday spending and emergencies might be tempting, but it comes with the opportunity cost of not investing in higher-yielding alternatives.

- High-quality, intermediate-term bonds, as represented by the U.S. Aggregate Bond Index, are a core holding within the fixed-income bucket of investors' portfolios. These bonds currently offer a yield of 1.7%, which, while low by historical standards, it's well above what cash or other short-term fixed-income alternatives offer.

- Even when looking further out into the future, market expectations point to a slow path to central-bank policy normalization, implying that short-term rates will stay low for the next two years. The first Fed rate hike is not expected until September 2022, and by February 2023 markets currently price in a little over two hikes, with the fed fund policy rate at 0.64%. Inflation might throw a curveball to this gradual tightening and is a key risk to monitor, but under the Fed's new average inflation targeting framework, policymakers can stay patient for longer.

- High-yield bonds provide higher levels of potential income, but with higher volatility. Because they tend to move in the same direction as stocks, a higher yield comes with higher risk. Depending on investors' risk tolerance, we recommend an appropriate allocation to complement the core holding of investment-grade bonds.

2. **Preserve principal** – Along with cash, investment-grade bonds have had a great track record of generating positive total returns, making them appealing to investors with low-risk tolerance and those who are planning to meet a future liability.

- While past performance is no guarantee of future results, the U.S. Aggregate

Bond Index has not led to any losses over any three-year period over the last 20 years. For comparison, the S&P 500 has been positive 78% of the time over the same time frame.

- No doubt this year has been a challenging one for bond investors. *The U.S. Aggregate Bond Index is down 2.1%*. For perspective, this is the worst decline since 1994 and only the fourth down year since 1980. But investors should also consider that bonds returned 8.7% in 2019 and 7.5% in 2020 for a combined total return of 16.2%, the best two-year gain since 2000.

3. **Diversify** - Because bonds have historically had a low correlation with equities, meaning that they tend to rise when stocks decline, and vice versa, allocating a portion of one's portfolio to fixed-income investments can potentially act as a portfolio stabilizer, helping to smooth out returns during times of volatility. When economic growth slows, or contracts, fixed-income attractiveness as a source of return and liquidity can rise.

- While it's true that yields are low today, bonds can still act as a buffer when stocks decline. 2020 was a good example of that, even as the year started with the 10-year Treasury yield near a record low (1.51% on 1/31/2020).

- But stocks don't have to enter a bear market for bonds to shine. After examining 41 S&P 500 pullbacks of 5% or more that occurred during bull markets since 1989, we find that investment-grade bonds generated positive returns 83% of the time as stocks fell, which is better than how other defensive asset classes and sectors performed.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	35,677	1.08%
S&P 500 Index	4,545	1.66%
NASDAQ	15,090	1.30%
MSCI EAFE	2,330	.22%
10-yr Treasury Yield	1.64%	4.46%
Gold	$1,793	.73%
Bonds	$114.04	-.42%

Source: Reuters/Wall Street Journal

Four Ways Your Kids Could Ruin Your Retirement

Retirement generally only happens one time in our life. It is that transition period where we hope our work, parental, and personal responsibilities dissipate to the point where we only must worry about ourselves. It is a time in our lives where we don't have to be on a time clock, don't have to worry about checking e-mail, and no meetings where we are on the schedule of someone else.

Nobody really tells you what kind of responsibility that comes with having children until you have a child. You work hard to raise your child the right way, and you hope one day that they will be a fully self-sufficient individual. Your greatest fear maybe your own children's failure to launch. Here are four ways your children can ruin your retirement.

Their Debt Becomes Your Guilt

Many parents believe it is their responsibility to make sure their child graduates college with no debt. It becomes their own truth to the point where they sacrifice their own retirement because they want their children to have a fresh start when they get to real life.

Recently, I saw a case where parents had more than $300,000 of personal loans that they took out just to make sure their children got out of college debt-free. The toll that the $300,000 of debt is going to have on the parent's retirement picture is immeasurable. In fact, it's likely the debt will never get paid off.

Debt is one of the nagging items that can ruin any retirement. The flicker of light that you get at the time you take the loans for your children will surely be the flames of destruction for your retirement. Under no circumstances should you borrow against your retirement savings to fund your children's college education. Nothing is owed to them but an opportunity in life.

Letting Them Get Settled Back At Home

There are a lot of parents that let their kids come back home (for a year) to help them get on their feet in real life. What's not to like about the home. The laundry gets done for the kids, there is food in the pantry, and basically, everything is free. It's just like the good old days in high school where Mom and Dad paid for dinners out, the Friday night movie, and you got some side money when you asked for it.

A few years ago, NPR did a study and found out that for the first time in 130 years more young adults live with their parents than with their partners. We aren't quite Italy, but more and more young Americans are living at home after college and into their late 20's due to the cost of living. The cost of living?

There is something magical about having to suffer. Knowing what it is like to have nothing, so you want to have something. Knowing what it is like to struggle. Knowing what it is like to have your back against the wall.

If you think that it's going to end after a few years, you are wrong. We've noticed kids that are now in their late 40's and 50's who are still mooching off Mom and Dad. A sure-fire way to ruin your retirement is to create a child who believes it is always your job to pick up the tab and give them a place to live.

The grandchildren guilt

What's better than having all the fun of the grandchildren, but not having any of the responsibility. Your kids see your face light up when you get to take care of the grandkids or get to take them out for a day.

Since your children are in a day and age where they are highly competitive with their friends, they may try to lean on you to help with private school or help out with savings for their kids' college.

All of this might be fine if you have the resources but don't for a second feel guilty that you must take the family on a Disney Cruise or pay for a private beach house in Hawaii. It's imperative you don't discuss your net worth with your children because once they realize what your resources are, they will lean on you financially in ways that you may not have imagined.

Sibling vs. Sibling

Even Steven. The age-old adage that we have all heard before. You need to be extremely careful about what you give your kids along the way because if you don't think they are keeping score then you are out of your mind. All kids keep score.

If you buy a new car, then you'll be guilted into buying one for the other kids. If you pay for a down payment on a new house for one of the kids, then the other siblings will expect the same from you as well.

Kids are kids and they are watching what you do all the time. Be careful about where the handouts start and stop because if you are too generous across the board then you'll be paying for it for the rest of retirement.

Earnings Highlights This Week

(source: CNBC)

Snap(chat)- Snap reported its third-quarter earnings on Thursday, missing revenue expectations after Apple's iPhone privacy changes disrupted its advertising business. The company also warned that global supply chain interruptions and labor shortages reduce the "short-term appetite to generate additional customer demand through advertising."

Chipotle- Chipotle Mexican Grill topped Wall Street's estimates for its earnings and revenue in the third quarter. Menu price increases helped the burrito chain offset higher costs on beef and freight. The shares of Chipotle have risen 33% this year, giving it a market value of $51.79 billion.

AutoNation- AutoNation's stock reached a new all-time record of more than $131.12 a share Thursday. The company reported its sixth consecutive quarterly earnings record. AutoNation also announced a major acquisition as well as a $1 billion stock repurchase program.

Tesla- Tesla reported third-quarter earnings after the bell Wednesday, and it's a beat on both the top and bottom lines. The record results were driven by improved gross margins of 30.5% on its automotive business and 26.6% overall, both of which are records for at least the last five quarters. The company's stock dropped less than a point after hours on the results.

IBM- IBM's revenue was up slightly as its top two business segments fell short of estimates. After removing the Kyndryl business IBM will spin out next month, revenue at IBM rose 2.5%, which is approaching CEO Arvind Krishna's target of mid-single-digit growth.

News and Notes:

How To Make Sure Your College Graduate Is Not A Failure To Launch

Make sure the job search is happening

- Help your kids review their LinkedIn profiles and challenge them to get to 1,000 connections.
- There are great Google Chrome extensions such as LinkedHelper and DuxSoup to increase connections and messaging.

Review The Money Management Basics With Them

- Get them their own credit card---if they don't have one
- Do your kids know how to deposit a check and balance their bank account?
- Do they know what their monthly expenses would be if they were on their own, so they know what salary they need to earn?

Review What You've Been Paying For That Will Be Their Expense

- How much is their monthly mobile phone bill?
- Are they still on your auto insurance?
- Explain how health insurance works.

Set Goals For When They Need To Leave The House

- You should charge rent from day one but save it aside for them to get into a starter apartment.
- Set, clear specific goals as to when you expect them to move out of the house.

Remember, You Can't Do It For Them….

- Ask yourself what struggles you went through and why it is good for them to struggle.
- Teach them that you really value something when you earn it not when it is given to you.

From the team at J M Brown Financial Partners
www.perfectcalendar.com

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to our distribution list, please reply to this email with their email address and we will ask for their permission to be added.
