Hello Everyone,

Trading is normally slow Thanksgiving week; and there is no report scheduled for Friday. So, here are the predictable post-Thanksgiving headlines in advance.

- Americans Consume Record 47 Million Turkeys.
- Bitter Cold Subdues Black Friday Sales
- Expect Bigger Cyber-Monday Sales (as a result)
- Bears, Cowboys, Saints Win (don't hold me to this one)

So, there you go. You can now ignore the news this weekend and just enjoy time with your family!

Signed, Your Those-Is-So-Much-To-Be-Thankful-For Financial Advisor,

Greg

KKOB 11.19.2018 High-Yield Stress

Brandon: So, Greg, so it's Thanksgiving week and my understanding is, you are going to go full wonk today---which scares me, because I never want anyone to go full wonk. The Morning Show's ratings suffer.

Greg: Sorry, Brandon, sometimes the need overwhelms me to come out of the big picture and dive into the weeds…and this is one of those days.

So, today, we are going to discuss High Yield Bonds. And even though this subject will never get you a date with a super model, almost everyone one of your listeners sees "High Yield Fund" as one of their options in their 401Ks. Some may even have some money allocated there. Afterall, high-yield has got to better than low-yield. Right?

Brandon: Well, it sure sounds better. I know here at Cumulus we have a High Yield Fund as one our options, but I must admit I don't know much about it. I know it pays It pays higher interest than other bond funds, but, that's about it.

Greg: It does…but, it does so at the expense of quality. So, Brandon, you likely know this, but to review----rating agencies grade bonds kind of

like eggs. Triple A is the best, then double AA, A, then triple B . Anything like eggs. Triple A is the best, then double AA, A, then triple B . Anything below that—double B's, C's, are all considered junk bonds….errr, high yield. Sooo, high yield = junk.

Anyway, to attract buyers, lower-rated bonds must offer higher interest rates…that's why people like them.

Brandon: OK. I get that. But even low-rated bonds don't fail very often, so isn't it worth the risk to go for the higher yield?—especially since rates are still so low?

Greg: Great point. And, for the last several years the answer to that has been, yes. So, here comes the wonky part. When the Federal Reserve dropped rates to zero, almost every company jumped on the bond bandwagon and said, "Issuing bonds is almost like getting free money!'

Well, yes, it was almost free, but bonds are still debt. Some bonds were rated as quality---a lot of it, though, was rated as junk. Anyway, with rates now rising, those debts must be repaid…or rolled over at higher rates.   And, some companies are now having trouble repaying.

Thus, we are seeing stress. That doesn't mean we have default-city at our doorstep, but now we are seeing formerly BBB bonds downgraded to double B. BB is becoming single B, and so on.   And as bonds get pushed down in quality, this means means the supply of junk bonds is rising…and Brandon, if supply of anything rises--- what often happens to price?

Brandon: It can certainly go down. And, if the prices of high-yield bonds go down, that means I'll be losing money even if they don't outright default.

Greg: Right. A+ You get it. So, the teaching point today is this----your listeners might want to look over their 401 K statements and see if they have money in a High-Yield Fund. If they do, they may want to consider moving it to something safer.

Oh, and as the Federal Reserve continues to raise rates, that means the pressure on High-Yield will likely rise even more. The only way the stress will be relieved is if the Fed starts lowering rates.

Brandon: But I don't see that. I know President Trump is trying to get them to lower; but, if they do that, critics will say they are caving into politics---and they don't want that perception.

Greg: I agree with that analysis. The Fed announced even before the 2016 election, they saw the need to raise rates. Yes, Obama got the advantage of zero rates, but they couldn't stay at zero forever. Everyone knew that. So, now comes the reversal. And, high-yield bonds don't benefit in this reversal.

Brandon: OK, you were right. That was pretty wonk-ish. But I get it. And, I know a lot of our listeners get it, too. Have a great Thanksgiving. How do people reach you?

Greg: Happy Thanksgiving to you and your family as well. My number is 508-5550, 508-triple-5-zero. Or, go to my website at zanettifinancial.com

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