

WHAT IS HAPPENING WITH BONDS?

Why Have Bond Returns Been So Bad?



If you follow the markets, you know bond returns have been poor. Historically poor. In 2022, the bond market suffered its worst year on record, as the Federal Reserve started raising interest rates aggressively to fight high inflation. This year hasn't been much better.

Thankfully, we've been out of the bond markets for quite some time, so we have limited any losses.

Let's talk bonds, what they are, how they work, and the mechanics behind why the returns have been negative.

When you own a bond, you are a lender. You loan money to corporations, municipalities or even the government. In return they are paying an interest rate during the term of your loan. If all goes to plan, they will return your original loan back to you at the end of the term or maturity.

For example, if you buy a 5-yr, \$100k bond from ABC corp. paying 5%, they will pay you 5% every year, for a total of \$25k, and then return to you your original \$100k at the end of year 5.

The interest rate you receive

will depend on the risk profile of the company or institution you are loaning your money to. Smaller, unknown corporations that need your money to fund their operations will need to pay you a higher interest rate to compensate you for that risk. That risk is that company closes and you never see your money ever again.

Why Would Someone Buy Bonds as Part of Their Investments?

1. Bonds can be speculative. In an attempt to outsmart the market, they can be bought and sold at times to maximize return.
2. Diversify their portfolio to provide less volatility than stocks
3. Provide a steady source of income per dollar invested.

What Types of Bonds Are There?

There are risky bonds, safe bonds and everything in between. Corporate and municipal bonds typically pay a higher return or yield than US Treasury Bonds. This is because they are riskier. They can default and you don't get

your money back. So to compensate, they pay a higher interest rate. The types of bonds you should own depends on your risk profile. Bonds are not riskless. Since Aug of 2020, intermediate-term Treasury Bond funds are down 15-20%.

Why are Bonds Down?

While the Fed doesn't control bond yields, it does influence them. In response to the Fed rapidly rising the Fed Funds Rate in recent years, bonds have followed suit. When bond yields rise, their prices fall. There's an inverse relationship.

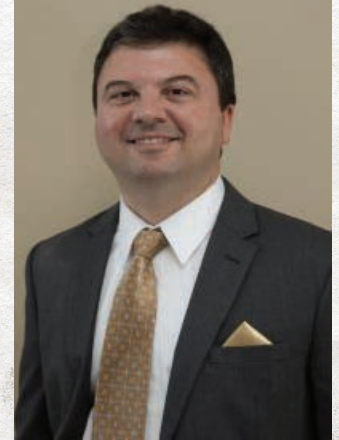
Let's say that last year I bought a 5yr, \$100k Treasury Bond that pays 2%. And the unfortunately for me interest rates jumped and 1yr later, new Treasury Bonds are paying 4%. I'm stuck with my old bond paying 2% and all new bonds are getting 4%. If I try to sell you my bond for the \$100k I paid for it, you would not do it knowing you can get a new bond paying double what mine is paying.

The only way you would consider buying my bond is at a discount, where I would realize a loss on my investment. I might have to sell it to you for \$85k which could be a fair deal. If you hold it to maturity, you get back \$100k on top of the 2% interest you are collecting along the way. The same logic applies to bond funds, just that it is taking place across thousands of bonds.

The Bottom Line

Changes in interest rates can have a significant effect on bond ETFs and

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November "kicks off" the holidays! It is known for Thanksgiving, a time for family gatherings, football and feasting. We also observe Veterans Day on November 11th, where we honor those who have died in the country's wars and all who have served.

I enjoy watching the Macy's Thanksgiving Day Parade from New York City. The creative balloons are always neat to see. It's nice to have it on while the Thanksgiving meal is prepared. This is the only meal of the year where it is acceptable to fall asleep on your couch right after you've eaten! I'm sure there's someone in your family that can tell you why turkey makes us so sleepy.

We like to put up our Christmas tree the day after Thanksgiving so we can enjoy it the entire month of December. I hope you take advantage of this month to gather with family and create memories.

Respectfully,
Alexis Hongamen, CFP®, CRPC®

Pickleball Mania!



It's the sport with the funny name. I'm sure you've heard of it since it is sweeping the country in popularity. And no, it has absolutely nothing to do with a pickle.

How It Started

Pickleball's origins are in the Pacific Northwest. In 1965, two men were trying



to entertain their bored families so they attempted to set up a game of badminton but couldn't find the shuttlecock. So they devised a game with a wiffle ball and ping pong paddles, played on a small court.

Over time, it has morphed to the game it is today, a cross between tennis and ping pong. The origins of the sport's name are said to be associated with rowing. The founder's wife said the players reminded her of a pickle boat, a crew of ragtag rowers who are randomly put together to compete in races.

Popularity

Pickleball is the fastest growing sport in the United States. Participation is up 171% in the last 4 years. Why is it so popular?

Ease of play: It's easy to play and requires little practice. Rules are similar to ping pong.

Low Cost: All you need

is a paddle and a pickle ball.

Sociability: People love the social aspect of the game. They also enjoy the friendly competition.

All Ages: You can play the sport even if you are a senior and the sport promotes a healthy, active lifestyle.

Low Impact: It is much easier on the body than tennis, for example. Although you do have to lunge, bend over and reach, there is less strenuous starting and stopping when compared to other sports.

Noise

One of the negatives that some people complain about is the noise made when the paddles hit the ball or when the ball hits the court. It can be described as a loud popping sound which some find annoying.



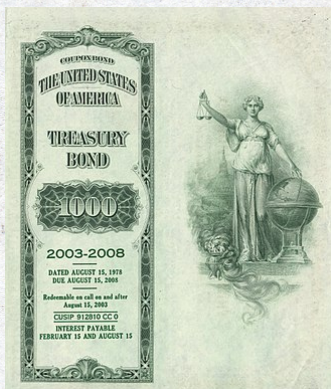
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other fixed-income investments. Increasing interest rates tend to make bonds and bond ETFs tumble.

For this reason, bond ETFs may be more appropriate for those who can tolerate the interest rate risk and hold the asset over a long period,

particularly if you need to wait for a shift in the interest rate environment.

Rather than selling assets at depressed prices, bond ETF investors might benefit from waiting for a potential recovery as interest rates return to their previous level.



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Flashback 20 Years Ago This Month



MOVIES

Elf and *The Matrix Revolutions* were the two biggest movies at the box office in November, 2003. *Elf*, starring Will Farrell, was a Christmas comedy film. It was about a human raised by Santa's elves, who learns about his origins and heads to New York City to meet his biological father. *The Matrix Revolutions* is the third installment of four in *The Matrix* film series. The movie stars Keanu Reeves, Laurence Fishburne, Carrie-Anne Moss. It was known for visual effects.

MUSIC

Billboard Hot 100 in November 2003 featured:

- Baby Boy by Beyonce and Sean Paul
- Stand Up by Ludacris and Shawnna
- Hey Ya! by OutKast

Britney Spears, at 21 years old becomes the youngest singer to get a star on the Hollywood Walk of Fame.



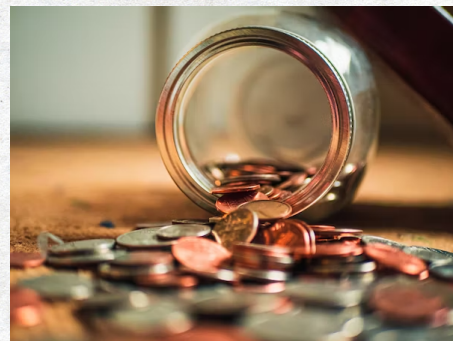
SPORTS

- 16-year old Lionel Messi makes his official debut for FC Barcelona when he comes on as a substitute in a friendly against Porto.
- Arkansas beats Kentucky 71-63 in 7 OTs at Commonwealth Stadium, Lexington; ties NCAA record for longest game in college football history.
- John Gagliardi ties Eddie Robinson as college football's career victory leader with his 408th win, guiding Division III St. John's to a 15-12 victory over St. Thomas.



- University of Pittsburgh wide receiver Larry Fitzgerald establishes a new NCAA record with a touchdown reception in his 14th straight game as Pittsburgh beats Boston College, 24-13 at Alumni Stadium

Questions? Call Alexis 407-729-8516



Tip Of The Month

Are you getting close to retirement and are not sure how to proceed? Do you have a plan or are you just putting money away and hoping for the best? Here are some tips on putting together a plan if you think you are 5 years or less away from retirement.

1. **Decide whether you are mentally ready to retire.** Some people haven't planned on what to do with their time after they leave the workforce. Maybe they don't have hobbies, or their entire identity is wrapped up in their work.
2. **What is your budget in retirement?** Everyone has to have some control over their spending when you are no longer working full-time. How much do you need to maintain your lifestyle?
3. **What will your sources of income be?** Have an idea how much you will get from social security, pension (if you have one) and how much to take out from your savings (without running out!). Would you have any interest in working part-time for spending money and having something to do?
4. **Where will you live?** Your living expenses, healthcare and how much you help loved ones are your biggest expenses in retirement. Where you live and healthcare go hand in and hand. Living in Costa Rica or Equador is appealing to many for a variety of reasons, but will you be satisfied with non-US healthcare? Do you want to live close to your kids and grandchildren? Will you follow your kids if they move as they advance in their careers?

Idiom Of The Month

“The Buck Stops Here” or “Pass The Buck”

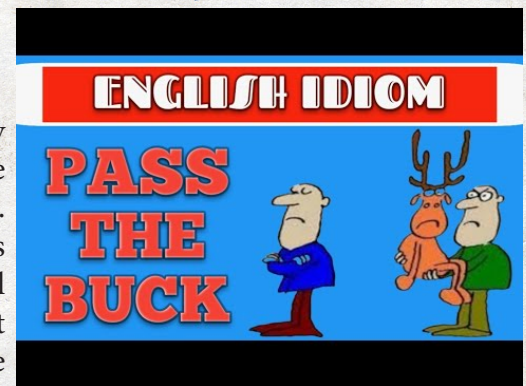


the person whose turn it was to assume the ultimate responsibility deal. This marker was often a for any consequences that take knife with a buckhorn handle place. President Truman received which was common during that the sign as a gift from a prison time. If the person didn't wish to warden who was an avid poker deal, he "passed the buck" to player. He loved it so much he put it the next player. It has on his desk. The phrase is also the morphed to be used as an motto for the US Naval Aircraft idiom for shifting blame for Carrier USS *Harry S. Truman*. something to another person.

HARRY TRUMAN

"The buck stops here" is a play on passing the buck. It was made popular by President Harry S. Truman. He kept a sign on his desk with that phrase at the Oval Office. It refers to the idea that the President has to make the final decisions on matters and

This expression "passing the buck" means to transfer responsibility to another for something that should be one's own. It originated with the game of poker during the American Frontier era. A marker or counter was used to indicate



FINANCIAL TRIVIA *How many can you guess???*

1. Which first lady was the first to appear on U.S. currency?
2. There's a \$1 bill and a \$2 bill. How about a \$3 bill?
3. How often does the government print new money?
4. How did the word "buck" come to mean a dollar?
5. Which two women have appeared on the U.S. \$1 coin?
6. How did the word "bread" come to mean money?
7. Why did the U.S. government put grooves on coins?
8. If each currency note printed in the U.S. were laid end to end, approximately how many times would the line of bills stretch around the earth's equator?
9. Who was the first U.S. billionaire?
10. In the financial world, what is a zombie?

Answers: 1) Martha Washington appeared on the front of a \$1 silver certificate in 1886 & 1891 and on the back in 1896. 2) There actually was a \$3 bill in the early 1800s, but only a few were ever printed by banks. 3) The Bureau of Engraving and Printing produces 37 million currency a day with a face value of \$696 million. 4.)Originally, a buck referred to a deerskin or buckskin, which was commonly used as money. 5) Susan B. Anthony and Sacagawea have appeared on the U.S. \$1 coin. 6) "Bread," the slang word for money, comes from an old Cockney rhyme, "Give me your money. Give me your bread and honey." 7) So that no one could shave the edges. People often did this when the dollar, half-dollar, quarter and 10-cent coins were made from silver and gold. Now the grooved edges can help visually impaired people tell the coins apart. 8) 24 9) Henry Ford, 10) Zombies, also called living dead, are companies that continue to operate even though they're bankrupt.

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