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## **Volatility the New Norm**

Brexit is the big news but it really should be second in story headlines to the Germany going negative on their 10 year government bonds. Japan went negative recently on their 10 year bond. What does this exactly mean? The literal translation is that your purchase of a 10 year bond does not give any interest but rather charges you to buy and hold. When you subtract the negative effects of inflation this becomes a guaranteed losing bet, so who would buy?

Purchases of high-quality low yielding bonds are made primarily with fear in mind and more concern with the *return of principal* instead of the *return on principal*.

Why would US investors expect rates to rise in this global environment? The answer in my opinion is we should expect to see low interest rates for the foreseeable future. Yes the employment numbers are a factor along with other economic data but a large influence driving yields is fear and the baseline created by other high-quality benchmarks. These include government debt issued from stable economies or high quality corporate debt. Apple recently placed a 30 year bond in Taiwan at a 4.15% yield which is an incredibly low yield historically for corporate debt. Why would a corporation with hundreds of billions in cash issue debt? The answer is because they can and the issuing rate is very favorable if they can find buyers.

This is a fantastic opportunity to borrow money and a terrible time to loan. The translation for me is it's a terrible time to give advice for clients seeking retirement income or looking to park safe money into some type of balanced portfolio. I am not alone as thousands of advisors and sophisticated investors are caught in this conundrum.

Larry Fink the Charmian of the largest asset manager Blackrock says, "It would be wrong to expect anything more than 4 percent or 5 percent at this time, if you're putting money to work today for long term," he told **CNBC**.

I do not expect the volatility of the market to wane and the whipsaws will continue so I encourage all clients to make sure we review portfolio allocations to address your individual concerns. We review internally on a constant basis but want to make sure your personal needs are being met.

All the best,

*Ian Goldey*

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President

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