

INTERESTS & TIDBITS

- “Do what you can, with what you have, where you are,” Theodore Roosevelt.
- Dr. Kevin Elko’s Morning Cup of Inspiration can be found at drelko.com
- Golf Tip: Swing barefoot! A good way to feel good balance is to swing barefooted. Take off your shoes & socks and tee up a 7-iron.

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If Interest Rates Rise, What Happens to Bonds?

Will bond investors soon suffer major losses? In the last few years, Bill Gross, Jim Rogers and other pundits have warned of a bond bubble. While it has yet to occur – the broad bond market yielded an annualized 4.42% from 2010-2014 – the threat remains.^{1,2}

Quality bonds have a place in a portfolio, but many investors are directing their money elsewhere. Seemingly everyone believes the Federal Reserve will raise interest rates later this year,

with bonds set to lose market value. Assuming the economy stays healthy and appetite for



risk stays strong, what will happen to bonds and bond funds when rates begin to climb?

The impact of rising rates will vary. Bonds and bond funds are different animals; some

might even call them different asset classes.

In a rising interest rate environment, bond fund investors will see principal values decline until rates level off or dip again. A diversified bond fund will reinvest interest payments into new bonds with higher coupons, however – meaning investors will see larger returns with time.^{3,4}

Long-term bonds tend to be hit harder by higher rates. They may lose market value, but eventually the higher rates

Are You Retiring Within The Next 5 Years?

You can prepare for your retirement transition years before it occurs. In doing so, you can do your best to avoid the kind of financial surprises that tend to upset an unsuspecting new retiree.

How much monthly income will you need?

Look at your monthly expenses and add them up. (Consider also the trips, adventures and pursuits you have in mind in the near term.) You may end up living on less; that may be acceptable, as your monthly expenses may decline. If your retire-

ment income strategy was conceived a few years ago, revisit it to see if it needs adjusting. As a test, you can even try living on your projected monthly income for 2-3 months prior to retiring.

Should you try to go Roth? Many pre-retirees have amassed substantial

If Interest Rates Rise...cont'd



“If you are after higher rates of return from short-duration bonds, you may have to look to bonds that are investment-grade but without the AAA or AA ratings.”

“Last year, the total return for the index was 5.97%.”

will result in extra income for the patient investor.

How about short-term and intermediate-term bonds? Some analysts warn against purchasing short-duration Treasuries and municipal and corporate bonds, contending that these debt securities might be hurt the most should the pace of rate hikes quicken. Others disagree.

Higher rates have not always imperiled the bond market.

Since 1975, our economy has witnessed six rising interest rate environments. They lasted from two to five years with T-bill rates increasing between 2.3 -11.9%. In those six instances, the total annual return for Barclays U.S. Aggregate Bond Index (the S&P 500 of the bond market) ranged from 2.6-11.9%, with most of the total annual returns at between 4-6%. In short, no disaster for a bond investor. (Last year, the total return for the index was 5.97%.)²

Still, if the federal funds rate rises 3% over a period of a few years, a longer-term Treasury might lose as much as a third of its market value as a consequence – and if bulls run on Wall Street with only brief retreats between now and 2025, how attractive will a short-term or intermediate-term Treasury be?

What if you want or need to stay in bonds?

Some bond market analysts believe now might be a time to exploit short-term bonds with laddered maturity dates. The trade-off: accepting lower interest rates in exchange for a potentially smaller drop in the market value of these securities if rates rise. If you are after higher rates of return from short-duration bonds, you may have to look to bonds that are investment-grade but without AAA or AA ratings.

If you see interest rates rising sooner rather than later, exploiting

short maturities could position you to get your principal back in the short term. That could give you cash which you could reinvest as interest rates go up. If you think bond owners are in for some pain in the coming years, you could limit yourself to small positions in government bonds, investment-grade corporate bonds and bond funds with durations of 10 years or less.

Bonds still belong in the big picture. In a bull market, putting money into an investment returning 1.5% for 10 years may seem nonsensical. It may make more sense in light of the goal of portfolio diversification and the need for consistent returns. If interest rates rise significantly in the next few years, current owners of long-term bonds might find themselves losing out in terms of their portfolio's potential. On the other hand, bonds have never lost half their value; stocks have.

Are You Retiring Within The Next 5 Years? ...Cont'd

retirement savings in tax-deferred retirement accounts such as 401(k)s, 403(b)s and traditional IRAs. Distributions from these accounts are taxed as ordinary income. This reality makes some pre-retirees weigh the pros and cons of a Roth IRA or Roth 401(k) conversion for some or all of those assets. You may want to consider the “Roth trade-off” – being taxed on the amount of retirement savings you convert today in exchange for the ability to take tax-free withdrawals from the Roth IRA or 401(k) tomorrow. (You must be 59 1/2 and have owned that Roth account for at least five years to take tax-

free distributions.)⁽¹⁾

Should you downsize or relocate? Moving to another state may lessen your tax burden. Moving into a smaller home may reduce your monthly expenses. In a perfect world, you would retire without any mortgage debt. If you will still be paying off your home loan in retirement, realize that your monthly income might be lower as you do so. You may want to investigate a refi, but consider that the Cost of a refi can offset the potential savings down the line.

How conservative should your portfolio be? Even if your retirement savings are substan-

tial, growth investing gives your portfolio the potential to keep pace with or keep ahead of rising consumer prices. Mere gradual inflation has the capability to erode your purchasing power over time. As an example, at 3% inflation what costs \$10,000 today will cost more than \$24,000 in 2045. (2)

Give your retirement strategy a second look as the transition approaches. Review it in the company of the financial professional who helped you create and refine it. An adjustment or two before retirement may be necessary due to life or financial events.

“In a perfect world, you would retire without any mortgage debt.”

Colorado Flavors

Easy Salmon Spread

1 slab of black-peppered salmon (2 inches thick, 3 inches long x 2 inches wide) - deboned & descaled

2, 8 oz. packages of cream cheese
1 tsp. minced garlic

2 tsp. fresh dill
Slivered almonds

Mix salmon, cream cheese, garlic and dill in food processor.
Line a fish-shaped copper mold with plastic wrap.
Spread mixture into mold and refrigerate for about an hour. Turn mold over

onto plate, remove plastic wrap. Decorate with slivered almonds to resemble fish scales. Use a black olive slice for the fish eye.
*If you don't have a copper mold, spread can be served like a cheese-ball.

Recipe by Lauren Gaddie-Johnson.



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Golftipsmag.com Wichitariverfest.com



Kansas Happenings

By Lauren Gaddie-Johnson

The Wichita Riverfest may be the biggest summer kick-off of 2015.

The Riverfest runs May 29 through June 6 and is an annual celebration of community and the magnificent Arkansas river.

The celebration will include local artists and musicians as well as national talent such as up-and-coming country star Easton Corbin and Disco legends Village People. On the other end of the music spectrum, the Wichita Symphony Orches-

tra will perform.

Food is also big on the list of must-dos. There is a funnel cake eating contest as well as an ice cream social.

Activities abound with a paperback book sale, petting



The Wichita Riverfest will feature fireworks on opening and closing nights.

zoo, horse rides, the River Run, an artwalk, farmers’ market and many, many more family-friendly events.

Riverfest admission buttons can be purchased at Intrust Bank Arena at 444 E. William or at any local QuikTrip or Dillons. Adult buttons are \$10 and children buttons are \$3. This low-cost button includes all nine days of the festival! More information can be found at Wichitariverfest.com.

*****The Financial Ascent is created & edited by Lauren Gaddie-Johnson.**