SOUND INCOME STRATEGIES

NEWS OF THE MONTH

Sound Income Strategies Newsletter, March 2019

February 2019

Index	Feb.	YTD
DOW	**+4.02%**	**+11.59%**
S&P500	**+3.20%**	**+11.46%**
NASDAQ	**+3.59%**	**+13.72%**
Barclays AGG	**-0.05%**	**+1.00%**

The US 10yr began the month at 2.62% and finish February at a 2.71% yield

We swapped Goodyear Tire bonds for Bank of America bonds.

- Sold BAC 3.95% 04/21/25 @ $100.11/ 3.92%
- Purchased GT 5.0% 5/31/26 @ $95.375/ 5.79%
- This was a yield pick up of 1.87% in yield to worst

Markets

For the most part, February saw a continuation of Wall Street's effort to rebound from 2018, its worst year since the Financial Crisis. As in January, big investors seemed to focus strictly on positive economic news in the shortest month of the year. Meanwhile, they managed to ignore the continued turmoil and division in Washington, and growing concerns about the possibility of a new recession in 2019 or soon after.

As a result, volatility was low again in February, and all the major indexes finished the month with significant gains. As of early March, the market was up over 10% for the year, but still down between 4 and 5% from its peak highs of 2018. The likely main driver behind all the calm and cautious optimism continues to be the Federal Reserve's new, more dovish stance on raising short-term interest rates.

In January, the Fed said it would be "patient" with further interest rate hikes and removed language about "further gradual increases" from its policy statement, and Fed Chairman Jerome Powell reiterated that position in February.* This, again, was welcome news to Wall Street, since raising short-term rates further would increase the already looming threat of a flat-yield curve—just one of several warning signs of recession that many economists are pointing to with increasing concern.**

Long-term rates continue to exhibit the strong resistance level I've been forecasting ever since the Fed started raising short-term rates again in late 2016. The yield on the 10-Year Treasury rate started February at 2.62% and finished at 2.71%. In between it sank as low as 2.63%—which is uncomfortably close to the current short-term rate of 2.5%. As I've explained before, the bond market is often considered "smarter" than the stock market when it comes to reading the economy, and its refusal to continue giving the Fed room to raise short-term rates in the current environment is another indication of that "smartness."

Given that a more cautious Fed is probably the main force behind the market's rebound so far this year, more gains and low volatility could continue for a while. On the other hand, if any of the symptoms of recession out there now should develop into a cause, all bets are off. Remember, when it comes to symptoms and causes of recession and major market corrections, often the tail wags the dog until the dog starts waging the tail!

Portfolio Transactions:

When managing your portfolio at SIS, we look for one of four possible "enhancement" trades while reviewing securities and possible transactions. Income generation is our primary goal for our clients, and we consider the following four portfolio enhancements before transacting: current yield, yield to worst (minimum projected annualized total return), interest rate risk, and default risk. The intents of these transactions are categorized as follows:

- **Pay Me Now –** Enhancing current yield
- **Pay Me Later –** Enhancing yield to worst
- **Cover My Assets I. –** Managing interest rate risk
- **Cover My Assets II. –** Managing default risk

We evaluate the transactions by determining whether they meet one, two, three, or all four enhancements. A baseball analogy for this: SINGLES, DOUBLES, TRIPLES, and HOME RUNS.

(Swaps info)

**"Fed Chief Powell Says Economy Sending 'Mixed Signals'", MarketWatch, Feb 26 2019*

8"Shades of 2007 as Volatility Markets Ignore U.S. Recession Risk," Bloomberg, Feb. 20, 2017*

Note: The above trades were recent block trades and do not reflect all trades done on an individual specific basis. Sound Income Strategies, LLC is a registered investment advisor. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Past performance is not an indication of future results. Be sure to first consult with a qualified financial advisor or tax professional about your specific financial situation before implementing any strategy discussed herein.

You are advised to give independent consideration to, and conduct independent investigation with regards to the information above in accordance with your individual investment objectives. Use of the Information is at the reader's risk, is strictly intended for informational purposes in conjunction with the recipient's due diligence, and should not be construed as a solicitation by Sound Income Strategies, LLC. Past performance will never indicate or guarantee future behavior. Sound Income Strategies, LLC does not represent or warrant that the contents of the document are suitable for you *from compliance, regulatory, legal, or any other perspective. We shall have no responsibility or liability for your use or non-use of the document or any portion thereof.*

Sound Income Strategies, LLC is registered as an investment advisor under the Investment Advisers Act of 1940 and is regulated by the SEC. Sound Income Strategies, LLC and its affiliates may only transact business or render personalized investment advice in those states and jurisdictions where we are registered or otherwise qualified to do so.

Our Team

Eric Lutton, CIO

elutton@soundincomestrategies.com

Ext. 146

Charles Radlauer, CCO

cradlauer@soundincomestrategies.com

Ext. 150

Ryan Peterson, Junior Financial Analyst

rpeterson@soundincomestrategies.com

Ext. 140

Keely Escalante, Operations Specialist

kescalante@soundincomestrategies.com

Ext. 138