SOUND INCOME STRATEGIES

NEWS OF THE MONTH

Sound Income Strategies Newsletter, August 2019

July 2019

Index	YTD	Month
DOW	**+16.60%**	**+1.10%**
S&P500	**+20.10%**	**+1.40%**
NASDAQ	**+23.90%**	**+2.10%**
Barclays	**+6.30%**	**+0.20%**

10-Year Treasury yield was 2.0% at the end of June and 2.01% at the end of July

Markets

August kicked off with a flurry of market activity that included Wall Street's worst day of the year on August 5th. By the closing bell, the S&P 500 had fallen almost 200 points from a peak of 3,030 down to 2,840. Once again, the driving force behind the drop was the same as it was throughout 2018: fears over the Trump Administration's ongoing trade war with China. One concerning new development was that China devalued its currency, which is a cheating strategy that governments sometimes use to try to gain a trade advantage.*

The bottom line for investors is that the stock market is clearly not the same market that it was prior to 2018. In 2017, optimism was in control and the market climbed rather steadily. That all came to a halt in January 2018, and Wall Street has pretty much traded sideways for about a year-and-a-half, with the threat of a third major sustained correction increasing the whole time. Is this latest drop the start of that correction? I don't think so. Thus far, there's been no materially bad news to trigger a sustained drop, but sooner or later it's going to happen—as the bond market already knows and has been saying loud and clear since December.

That was when—for the first time all year—bond yields didn't increase to accommodate another short-term interest rate hike by the Federal Reserve. Anticipating slowing growth and other factors, the bond market said "enough is enough", and didn't budge. Long-term interest rates have only fallen further since then, resulting in the U.S. yield curve becoming partially inverted. It remains that way even after the Fed's approval of a quarter percent short-term interest rate cut in July. Meanwhile, many European countries have seen their yield curves become fully inverted temporarily, strengthening the argument that overall low interest rates are becoming the "new normal".**

All of this gives me and other Income Specialists another opportunity to demonstrate why investing-for-income is a sound strategy for investors over 50 regardless of market conditions. For one thing, the shift in the direction of interest rates from rising back to falling means that the headwind for bond investors, overall, has ended. This isn't to say the current environment doesn't make it challenging to get good, competitive yields, or that a major sustained market correction wouldn't make it even more challenging. But that's exactly why I switched to an active management business model four years ago; active management gives us the opportunity to turn these challenges into opportunities on behalf of our clients.

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.

There were no swaps for the month of July.

* "U.S. Stocks Post Worst Day of Year After China Devalues its Currency," CNN, Aug. 5, 2019

** "Global Bond Rally Leaves U.S. Yields on Top," Wall Street Journal, Aug. 7, 2019

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.

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