MAKE
A Solar Power Play; 10 Best Executive Wellness Programs; Malcolm Gladwell's Tipping Point

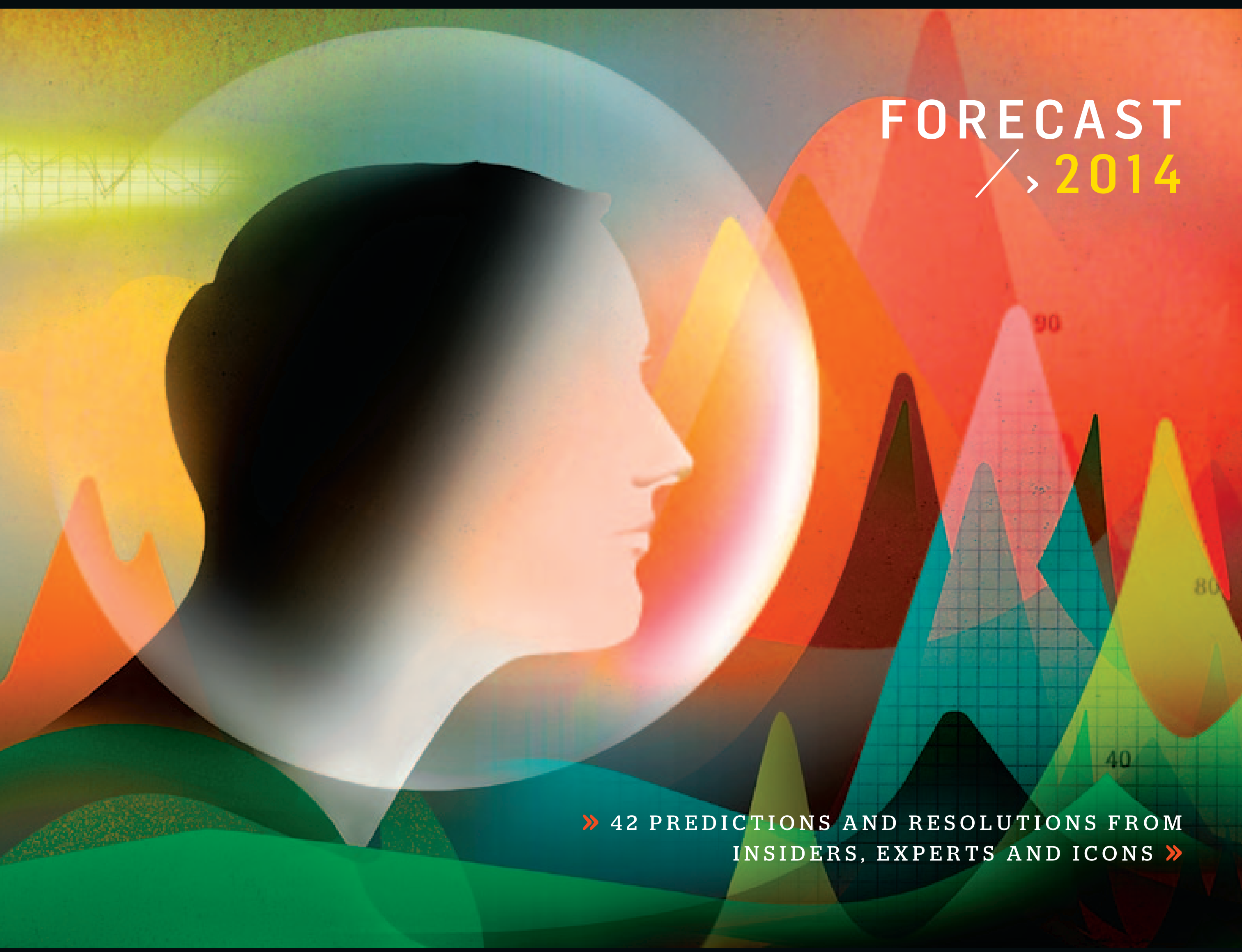
GROW
Global Investing Hotspots; The Best Way to Cut Your Real Estate Taxes; Is Your Financial Advisor Honest?

LIVE
Defending Your Home; The Top 10 Luxury Innovations; How a Smartphone App Could Save Your Life

CURATOR
Holiday Gifts Built to Last: Bentley Skis, Chopard's Classic Watch, a Rare Scotch from The Balvenie

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE



WORTH.COM
27
VOLUME 22 | EDITION 06

LLBH Private Wealth Management LLC

Kevin Burns, Partner; Bill Loftus, Partner; Bill Lomas, CFP®, CIMA®, CRPC®, Partner; Jim Pratt-Heaney, CIMA®, Partner; Michael Kazakewich, CFP®, CRPC®, Associate Partner

"Why invest in bonds when interest rates may finally be rising?"

By Kevin Burns

Long ago, one of my most prescient clients said something I will never forget. She was in her late 80s when she told me, "Only God knows which way interest rates are going to go." As a rule, bond prices generally rise when interest rates fall and fall when interest rates rise. For the last 30 years, rates have generally decreased and bonds have enjoyed excellent returns. This could be changing.

Recently, outflows from bonds and bond funds have been enormous. Liquidity in many of the fixed income markets has become strained as large financial institutions have committed less of their capital to maintain an orderly market. Interest rates have risen by the largest percentage in over 30 years. This has made bonds quite volatile, and many bond investors have seen their fixed portfolios sustain the largest drops in recent memory. If this is true, why own bonds at all?

Most investors should own bonds as part of a diversified, low-to-moderate-risk portfolio. Bonds provide current yield, have maturities where the principle will be returned and are generally less volatile than many other investment asset classes.

But it is important to note that not all fixed-income investments are created equal. Bonds have different backing, maturities and taxation levels. Trading in bonds can be like the Wild West, given the spreads between buying and selling a bond. Also, not all types of bonds react negatively to rising interest rates. And what if my elderly client is right, and we really don't know that rates will rise—and they all of a sudden begin to fall?

So how does a smart investor navigate the current fixed-income terrain? Our preference is to opt for a professionally managed bond portfolio with some of these potential solutions:

- Reduce government bond exposure and shorten durations. This way, if rates do rise, you can reinvest at the higher rate.
- Add intermediate-term municipal bonds. Interestingly, in the last few rising-rate environments, intermediate municipals actually rose in price while the Federal Reserve increased rates. When the Fed acts this way, the yield curve usually flattens, short rates rise and the intermediate sector of the yield curve does well.
- Invest in reinsurance bonds. These bonds have floating rates based on a sizable spread over short-term rates. If rates rise, so will your coupon.
- Index some of your bond portfolio to inflation. Short-duration, high-quality municipal bonds matched with a similar duration consumer price index may blunt some of the damage to fixed income during a rising-interest-rate environment. In most cases, as rates rise, so do inflation expectations.
- Seek out lower-credit quality bonds. When panic sets in, as recently occurred in the bond market, opportunity abounds. It may be appropriate for some investors to consider some of the lower-credit quality bond offerings, especially if they utilize a professional manager with a history of buying improving credits early.
- Diversify asset classes even further. Consider investing in master limited partnerships (MLPs), which often have an inflation kicker, raising distributions when inflation rises. Look at high-dividend-yielding real estate investment trusts (REITs), which could benefit from higher inflation. If daily liquidity is not necessary, consider alternative investments, like absolute return hedge funds, as part of a broad-based portfolio.

My elderly client was right: It's hard to anticipate where rates are going. Therefore, it makes sense to stick with a portfolio that diversifies asset classes (including bonds), diversifies management styles and rebalances periodically based on an overall wealth management plan.

The information contained herein should not be construed as personalized investment advice, and should not be considered as a solicitation to buy or sell any security or engage in a particular investment strategy. Past performance is no guarantee of future results, and there is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors.

"Bonds provide current yield, have maturities where the principle will be returned and are less volatile than many other investment assets classes."

—Kevin Burns

How to reach Kevin Burns

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 203.683.1525.

Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

ILLUSTRATION BY NANCY JANUZZI

Who Are Our Clients?

LLBH Private Wealth Management is a Registered Investment Advisory (RIA) firm, created to work with entrepreneurs and senior executives who became wealthy because they made great decisions. Our disciplined process ensures that we see the complete picture of your financial situation so that we can make informed and suitable recommendations to help you accomplish your goals and objectives. Our process also works for those who have been thrust into decision-making roles due to life-changing events such as retirement, the sale of a business, a divorce or a death in the family. Just as they do in their professional lives, our clients want a thorough and candid process in order to make smart decisions about their financial lives. Simply put, LLBH clients respect our ability to get things done.

Assets Under Management
$1.1 billion

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (investment services)

Largest Client Net Worth
$500 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing, A BNY Mellon Company

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Membership
Investment Management Consultants Association

Website
llbhpwm.com

Email
kburns@llbhpwm.com

LLBH Private Wealth Management LLC | 33 Riverside Avenue, 5th Floor, Westport, CT 06880 | 800.700.5524

Kevin Burns
Partner

Bill Loftus
Partner

Bill Lomas, CFP®, CIMA®, CRPC®
Partner

Jim Pratt-Heaney, CIMA®
Partner

Michael Kazakewich, CFP®, CRPC®
Associate Partner

LLBH Private Wealth Management LLC
33 Riverside Avenue, 5th Floor
Westport, CT 06880
Tel. 800.700.5524

kburns@llbhpwm.com
llbhpwm.com

LLBH Private Wealth Management

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE

LLBH Private Wealth Management LLC is featured in *Worth*® 2014 Leading Wealth Advisors™, a special section in every edition of *Worth*® magazine. All persons and firms appearing in this section have completed questionnaires, have been vetted by an advisory group following submission by *Worth*®, and thereafter paid the standard fees to *Worth*® to be featured in this section. The information contained herein is for informational purposes, and although the list of advisors presented in this section is drawn from sources believed to be reliable and independently reviewed, the accuracy or completeness of this information is not guaranteed. No person or firm listed in this section should be construed as an endorsement by *Worth*®, and *Worth*® will not be responsible for the performance, acts or omissions of any such advisor. It should not be assumed that the past performance of any advisors featured in this special section will equal or be an indicator of future performance. *Worth*®, a Sandow Media publication, is a financial publisher and does not recommend or endorse investment, legal or tax advisors, investment strategies or particular investments. Those seeking specific investment advice should consider a qualified and licensed investment professional. *Worth*® is a registered trademark of Sandow Media LLC. See "About Us" for additional program details at http://www.worth.com/index.php/about-worth.