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NAVIGATING WINDS OF CHANGE—EXPERT ADVICE FOR 2012

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Fairfield County, CT | Leading Wealth Advisor

LLBH Private Wealth Management LLC
Kevin Burns, Partner, Bill Loftus, Partner
Bill Lomas, CFP®, CIMA®, CRPC®, Partner
Jim Pratt-Heaney, CIMA®, Partner

"How can I earn 4% from my fixed-income portfolio in a 0% risk-free environment?"

By Bill Loftus

I was having a conversation with a good friend the other day about the state of the economy, which in turn led to discussion around investing. My friend voiced a concern about what we increasingly hear from individuals, in particular, aging baby boomers, who have saved and invested all their life. It goes something like this, "How am I going to make my savings last in this low interest rate environment?"

Indeed, for the first time in our 30-plus years as financial advisors our clients and friends are considering the possibility that the United States could face a low interest rate environment for many years, as has Japan since the early 1990s. This change in capital market assumptions may have wide-ranging implications for retirement plans. The challenge will be to find attractive investments that permit maintenance of a standard of living while balancing the dual possibilities of deflation and inflation. Surely, this is the pressing question on the minds of pension fund managers who must consider the prospect of lower investment returns in the context of increasing life expectancies.

LLBH has addressed this problem by looking at several portfolio mixes. We tested various allocations from the time period of 2000 to 2010. Our research focused on the volatility of the portfolio, performance over different periods of time, and the relative performance of the portfolio against relevant benchmarks. We were concerned with risk mitigation; as a result, we focused on the portfolio's sensitivity to a rising interest rate scenario. Although we would typically like our sample to include a longer time period, we felt this decade gave us good data on how our allocations would react to different cycles. After all, it was a period that included two stock market declines of more than 50 percent and a Fed funds rate that ranged from 0.0 to 6.5 percent, as well as several recessions.

The portfolio providing the best return with the least amount of risk (no down years, lowest volatility, highest alpha and Sharpe ratio) consisted of short-, intermediate- and longer-term municipal bonds, inflation-adjusted securities (taxable and tax free), publicly traded master limited partnerships, real estate investment trusts, and international sovereign and corporate debt. We found it most beneficial to overweight the municipal bond sector while underweighting the MLPs, REITs and international debt. Importantly, this portfolio generated more than 4 percent in after-tax yield with enough maturity and call protection to ensure continuous cash flow for a considerable period of time. Additionally, it generated positive returns in the 2004–2006 time frame when the Fed funds rate increased from 1.25 to 5.5 percent. Moreover, the standard deviation (measurement of volatility) was approximately equal to a short-term bond or roughly one/fifth of the S&P 500, with a worst quarterly performance of just over 2.5 percent.

Investors sitting on cash may have to reorient their thinking. Waiting for interest rates to rise to acceptable levels to invest may be an exercise in futility. Investors should consider placing a couple of years of spending in money markets or Treasury bills and investing the balance in a well-diversified portfolio, like the one above. The portfolio should have some balance between instruments, such as MLPs, REITs and inflation-adjusted securities, that do well in periods of inflation, and those, such as intermediate- to long-term municipals and international debt, that will do well in periods of low or no inflation. For the baby boomer generation, the real risk may be earning power over the balance of their life, not short-term market moves.

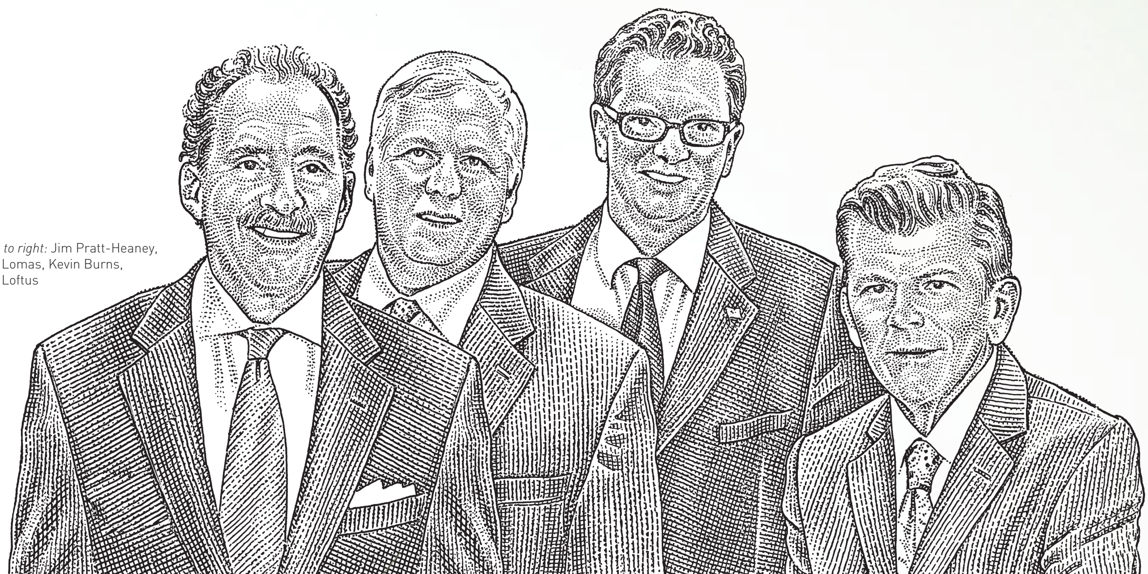
Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this article will come to pass. LLBH Private Wealth Management, LLC (LLBH) is an SEC- registered investment advisor located in Westport, Conn. Contact LLBH or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). For additional information about LLBH, including fees and services, send for our disclosure brochure as set forth on Form ADV from LLBH using the contact information herein. Please read the disclosure brochure carefully before you invest or send money.

"Waiting for interest rates to rise to acceptable levels to invest may be an exercise in futility."

– Bill Loftus

How to reach Bill Loftus

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



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

About LLBH Private Wealth Management

After 15 years teaching, Jim Pratt-Heaney joined EF Hutton in 1986. He became a vice president at Smith Barney before moving to Merrill Lynch in 1998. He is a Certified Investment Manager Analyst and leads LLBH's asset management. Bill Lomas started with PaineWebber in 1981, spent 18 years as a senior vice president at Prudential Securities and Smith Barney and joined Merrill Lynch in 1998. Mr. Lomas, a Certified Financial Planner™ and Chartered Retirement Planning Counselor℠, leads LLBH's holistic investment planning process. Kevin Burns, whose career began at PaineWebber in 1981, became a senior vice president at Oppenheimer & Co. and Smith Barney before joining Merrill Lynch in 2000. He leads LLBH's new client asset acquisition and client service and contact operation. In 1986, Bill Loftus joined Merrill Lynch and then spent 10 years as a senior vice president at Smith Barney before returning to Merrill Lynch in 1998. He leads LLBH's corporate executive advanced wealth planning, lending and alternative investments.

Assets Under Management
$750 million (team, as of 10/31/11)

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

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

Association Membership
Investment Management Consultants Association

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