

The Independent Investor

By Bill Schmick

The risk of rising rates

Conservative investors are becoming increasingly concerned that their bond holdings may be at risk. If and when the Federal Reserve Bank hikes interest rates this year, will bond holders be caught holding the bag?

It depends. The short answer would be that when interest rates rise, bond prices fall, if all else remains equal. That's because bonds have two sources of returns: changes in price and interest payments that move in opposite directions. If you hold your bond investment until the date it matures (whether that is a few months or as long as 30 years), you receive all the interest payments the bond pays out plus your original investment money back at maturity, provided you purchased it at par (the price at which it was initially offered).

For those of you who plan to hold your bonds to maturity and are happy with your present rate of interest, then there is nothing to worry about. Rates can rise all they want, but why should you care?

The problem for many elderly, fixed-income investors is that they are not sure they can wait the 5, 10, 20 (and certainly not 30) years necessary to cash in their bonds at par. Secondly, most retired investors acknowledge that at the present rate of interest income received, they can't make ends meet. So rising interest rates for them is a double-edged sword. It means that in the future the stream in interest income from bonds will improve, but bonds they hold now will go down in price at the same time.

If we focus on individual bonds in the short term, when interest rates move up, basic bond math indicates that prices generally will decline. Price history also indicates

that the longer the maturity of your bond, the steeper the decline. Therefore, long-dated, low-interest individual bonds are the most risky investments you can hold in a rising rate environment.

On the other hand, bond funds usually decline less—but they still decline. Bond funds have a wide array of short-, medium- and long-term bond holdings that mature during different times with different rates of interest. That lessens the impact of interest rate increases over time.

Remember, too, that despite rising rates (or even because of them), governments and corporations must continue to raise money in the debt markets. Plants still need to be built, roads paved and government programs financed, but now the cost of borrowing is higher. There is usually a ready market for these higher yielding bonds, depending on the quality of the issuer.

As interest rates rise, bond buyers, including bond fund managers, are always buying and selling lower yielding bonds for higher yielding bonds. That tends to lessen the price depreciation they suffer over time. As long as interest rates do not rise too fast, most managers can stay ahead of the curve. They can offset price declines in their portfolio of bonds by buying bonds with higher interest payments over a longer period of time.

In summary, individual bonds are riskier than bond funds, generally speaking. In our next column we will discuss the risks of different types of bonds and strategies to reduce that risk going forward.

Bill Schmick is registered as an investment advisor representative and portfolio manager with Berkshire Money Management (BMM), managing over \$200 million for investors in the Berkshires. Bill's forecasts and opinions are purely his own and do not necessarily represent the views of BMM, and none of his commentary is or should be considered investment advice. Direct your inquiries to Bill at 1-888-232-6072 or Bill@afewdollarsmore.com. Visit www.afewdollarsmore.com for more of Bill's insights.

PKA News

By Amry Cox

There are many ways, large and small, that volunteers help our homeowners association. People volunteer to serve on the board. They volunteer to serve as committee chairs. They volunteer to serve on committees and special projects like building the ramp at Ocean Park. All these people and their skills and their donated hours of dedicated and selfless service keep our annual dues what they are. We simply could not do what we do without these generous donations. Please thank a volunteer whenever you see one—or pitch in and help for just an hour or two. If each homeowner donated one hour a year to PKA, we would be able to do much more to maintain and improve our common areas. Think about it.

As we recognize and thank those who volunteer, it's important to note that some of our most dedicated, and often behind-the-scenes, volunteers are our PKA park captains. These folks collaborate with the Parks Committee chair. The Parks Committee "is responsible for the maintenance of all park areas, including grass mowing and trimming. 'Park areas' are defined as all of Ocean Park and King's Corner, and from the bulkhead or the water's edge in toward the land areas of Brock Basin, Hall Haven, Ramsey Park and Davis Landing. Five other association members (known as park chairmen [or captains as we call them now] are assigned to monitor each designated park. The director will also be responsible for all security matters, including the security gate and its maintenance and repair, contracting of outside security guards, purchases of stickers, gate cards and violation notices."

We should probably create a PKA park captain hall of fame because these people work day in and day out doing many, many things to keep our parks maintained and usable 12 months out of the year. Some of the many tasks I have seen park captains do are weekly trash and recycling; general cleanup; repair of equipment, lights and signs; repair of gate arms; maintenance of walkways and stations; kayak rack builds; and repair and installation of swing sets.

From engineering expertise to watchful oversight, our park captains do it all, and we in PKA are lucky to be the beneficiaries of their dedicated volunteering.

Our 2015-2016 PKA park captains are:

- Brock Basin—Dick Belanger and Susan Phillips
- Davis Landing—Leslie and Paul Pylko
- Hall Haven—Craig Letchner
- Ocean Park—Shannon Smylie
- Ramsey Park—Marian and Ted Goetzinger

As I write this, a small number of volunteers are working in Brock Basin. See the accompanying photo of a small staining project completed by Susan Phillips. Every bit helps toward maintenance and longevity of common areas—which we all use and enjoy.



Newly stained chairs at Brock Basin are ready for fall enjoyment.—Photo by Susan Phillips