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ADVANCE
CAPITAL MANAGEMENT

FINANCIAL LIVING

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A QUARTERLY NEWSLETTER FOR THE CLIENTS AND FRIENDS OF ADVANCE CAPITAL MANAGEMENT

How Fed rate increases can affect you

The Federal Reserve (Fed) meets about once every six weeks, and each time it's big news. Everyone wants to know one thing: Are rates going up?

As the economy has recovered from the 2008 financial crisis, the Federal Reserve has gradually raised the federal funds rate, which is the interest rate banks charge each other for overnight loans. It is the rate banks and other lenders use to price loans and savings accounts.

Though rates are still historically low and each uptick thus far has been small, rate changes can have an impact on our financial lives. Whether it is good or bad generally depends on if you're saving or borrowing.

The Fed raised its benchmark interest rate four times last year and may do so again in 2019. Therefore, it's worth having a little refresher on what it all means for your money.

Savings

For savers, higher interest rates are a good thing. As the Fed raises rates, banks typically pay more interest on savings accounts. However, today's rates on savings and money market accounts remain stubbornly low. The national average as of this writing is only 0.21%, according to BankRate.com.

So you can't plan to park most your money in a certificate of deposit (C.D.) and even expect it to surpass the rate of inflation. But, shop around and you can find some C.D.s and online savings accounts paying as high as 2-3%, with more banks soon to follow as rates continue to climb.

Bonds

Bond prices and rates have an inverse relationship. When rates go up, bond prices go down. That's because investors can now buy new bonds that pay higher interest rates. Though dropping bond prices can be concerning in the short term, higher rates are good for investors in the long term as bonds provide more generous interest income.

Anticipating Fed rate hikes, the Advance Capital investment team over the past several years has favored bond funds that are less sensitive to rate increases to help temper the impact of falling bond prices on client portfolios.

Credit cards

Most credit cards have a variable rate, which is tied to the federal funds rate. Cardholders, therefore, can expect to be charged more in interest. Those carrying an outstanding balance may want to look for zero-interest balance transfer offers.

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Market Insights: Q4 2018

2018 proved quite difficult for investors as most investments produced a negative return across styles, sectors and asset classes. Even the most conservative investments were not immune to the market's pressure.

Typically, investors are rewarded for taking risks and investing in the capital markets; this past year was not the case. While it is difficult to eliminate risk, our job is to manage it and try to reduce it as best we can through diligent research and manager selection.

A REVIEW OF 2018

Reflecting on the year, January proved particularly strong for global stocks as the S&P 500 Index jumped about 8 percent in the month. New tax cuts at the individual and corporate level fueled renewed optimism among investors. At the same time, the Federal Reserve made it clear they intended to "normalize" interest rates after several years of historically low rates.

From late January through early spring, investor optimism began to wane. Higher interest rates and growing international trade disputes spooked investors, which led stocks to decline about 10 percent. By the end of the third quarter, the combination of very strong corporate earnings and modest trade resolutions led investors to push domestic stock indices back to all-time highs.

This more sanguine environment turned sour during the fourth quarter. Concerns mounted over the strength of corporate earnings, rising interest rates and heated trade rhetoric, which led investors to run for the exits and trigger a precipitous market decline. The major stock market indices around the world posted negative returns for the year, with foreign and emerging markets getting hit the hardest. At the same time, the steady rise of interest rates led to an erosion of bond prices and resulted in poor returns for even the most generic bonds.

ECONOMIC SLOWDOWN IN THE WORKS?

On the economic front, while overall activity remains quite strong, there are some indications that a modest slowdown is occurring. The drivers of growth have been housing, manufacturing and record levels of employment. Over the past year, the economy has added over 2 million new jobs. The unemployment rate has fallen to the lowest level since 1969, with the fewest unemployment claims in about 50 years. A tighter employment picture has lifted wage gains to around 3 percent, the fastest pace in about 10 years.

After several years of growth, the housing sector is showing signs of a slowdown. Recent data suggests rising borrowing costs and elevated home prices is crimping demand in all four regions of the country. Still, steady job gains and elevated consumer confidence should help underpin demand.

However, the latest reading on manufacturing activity from the Institute of Supply Management (ISM) points to strengthening conditions in the sector despite heightened trade and political uncertainty.

DISRUPTIVE FORCES SHAPING CAPITAL MARKETS

Although current economic conditions appear strong today, there is no shortage of uncertainty and potential volatility waiting for investors in the new year. To begin, the Federal Reserve (Fed) has raised interest rates nine times over the past three years, reduced its balance sheet by about $500 billion and signaled more interest rate hikes are likely. While still modest by historical standards, higher rates have already helped push down stock prices and cooled some inflationary pressures. If the Fed pushes too hard on rates, both the economy and capital markets could suffer.

Geopolitical risks, highlighted by an ongoing trade spat with China, appear far from any concrete resolution. Concerns that the U.S.-China dispute could escalate into a full-blown trade war is keeping investors on edge.

Finally, after almost 10 years, the bull market in stocks and economic prosperity is long in the tooth and likely coming to an end. While these signs might appear a bit ominous, they are somewhat offset by low unemployment, solid economic growth, strong corporate earnings and robust consumer sentiment, which should persist in the year ahead and help buffer some of the downside pressures.

EXPECTING MORE VOLATILITY

After many years of above-average returns in many asset classes and a sanguine economic environment, it appears volatility and uncertainty have returned. Although stocks may continue to struggle a bit as expectations are reset amidst higher interest rates and an expected slowdown in corporate earnings growth, we believe there are opportunities in stocks now that valuations look more reasonable.

(Continued on page 4.)

It is not possible to invest directly into an index. The indices mentioned in this article are unmanaged and are not affiliated with Advance Capital Companies.

Remembering John Bogle

On January 16, the financial world lost one if its giants, John Bogle, founder of the Vanguard Group. As a longtime investor in Vanguard funds and an advocate for low-cost investing, we're saddened by his passing.

Not all heroes wear capes. Bogle was a fierce crusader for lower investment costs, industry transparency and investor education. He was also an unassuming philanthropist and a man with words. As a tribute, here are some of our favorite quotes from the investment legend.

"Time is your friend; impulse is your enemy."

"In investing, you get what you don't pay for. Costs matter."

"Don't look for the needle in the haystack. Just buy the haystack!"

"When there are multiple solutions to a problem, choose the simplest one."

"The greatest enemy of a good plan is the dream of a perfect plan. Stick to the good plan."

"The two greatest enemies of the equity fund investor are expenses and emotions."

We're pleased to acknowledge that Advance Capital adviser Dan McHugh has been named to the Oakland County Executive's 2019 Elite 40 under 40 Class of 2019. This list recognizes the top 40 young professionals and thought leaders who live or work in Oakland County, Michigan, as chosen by a panel of judges. The 40 honorees have achieved excellence in their field and contributed to the quality of life in their communities.

In addition to helping families and individuals reach their financial goals – for which he was named to the Forbes Top Next-Generation Advisor list – Dan is passionate about giving back to others in the community. Dan and his wife created and funded the "Ideas with an Impact" grants for the Pontiac School District. These grants directly benefit the students, funding behavioral programs, new books, field trips and much needed chemistry supplies.

Here's a link to their press release, in case you need an image or URL. https://www.oakgov.com/pages/news.aspx#/oakland-county-executive-s-2019-elite-40-under-40-class-set-public-to-pick-best-of-the-best-in-online-vote.

Fed Rate Increases *(Continued from page 1.)*

Of course, the best way to prevent rising rates from affecting your credit is to just pay off your balance every month.

Mortgages

Mortgage rates aren't as influenced by Fed rate changes as you may think. Your typical 30-year fixed-rate mortgage is priced off the 10-year Treasury bond. Home equity lines of credit and adjustable-rate mortgages, on the other hand, are more directly tied to the Fed's moves. These rise in conjunction with the funds rate. Borrowers that are impacted may want to consider asking their lenders about refinancing to a lower, fixed rate.

Auto loans

The usual quarter-point increases from the Fed in the past few years won't scare off many car buyers. For example, on a $25,000 five-year car loan, the last Fed rate hike of 0.25% meant paying only an additional $3 a month. Yet auto loans will continue to charge more as rates continue to rise.

Those in the market for new wheels may want to consider a pre-owned vehicle for its lower price tag and depreciation cost. If you're a retiree, how you finance a car in retirement is a big decision. Check out Advance Capital adviser Robert Kleber's short video on financing cars in retirement in the Education Center on our website: www.acadviser.com/education-center.

Student loans

Student loan debt is a growing problem. More than 44 million borrowers in the U.S. collectively owe $1.5. trillion in student loan debt. And, some students may want to watch the Fed closely. Federal student loans carry a fixed rate, which means most student borrowers who rely on those loans don't have to worry about the Fed's actions. But private student loans are usually pegged to the Libor index, which often moves with the Fed funds rate. Students with private loans can then expect to be squeezed even more.

Spring Client Meetings — Save the Date!

FORT MYERS, FL
March 5
10:00 a.m. EST
Crowne Plaza Hotel

TAMPA, FL
March 6
10:00 a.m. EST
Sheraton Tampa Brandon Hotel

THE VILLAGES, FL
March 7
10:00 a.m. EST
The Waterfront Inn

CADILLAC, MI
April 2
11:00 a.m. EST
Evergreen Resort

PALOS PARK, IL
April 3
11:00 a.m. CST
Francesca's Vicinato

KALAMAZOO, MI
April 4
11:00 a.m. EST
Fetzer Center

TRAVERSE CITY, MI
April 9
11:00 a.m. EST
Great Wolf Lodge

PETOSKEY, MI
April 10
11:00 a.m. EST
Stafford's Perry Hotel

CHAMPAIGN, IL
April 10
11:00 a.m. CST
Hilton Garden Inn Champaign

SAGINAW, MI
April 11
11:00 a.m. EST
Horizons Conference Center

TROY, MI
April 16
11:00 a.m. EST
Management Education Center

INDEPENDENCE, OH
April 17
11:00 a.m. &
6:00 p.m. EST
Holiday Inn Cleveland South

GRAND RAPIDS, MI
April 17
11:00 a.m. EST
Watermark Country Club

SCHAUMBURG, IL
April 24
11:00 a.m. CST
Chandler's at Schaumburg Golf Club

LANSING, MI
April 25
11:00 a.m. EST
Eagle Eye Golf Club

PORT HURON, MI
April 30
11:00 a.m. EST
Blue Water Convention Center

Brookfield, WI
April 30
11:00 a.m. EST
Mitchell's Fish Market

You can RSVP on our website at **www.acadviser.com/education-center/** (Events link) or by calling **(800) 345-4783**.

Market Insights *(Continued from page 2.)*

Meanwhile, after a dismal year for bonds, we are optimistic that the Federal Reserve will moderate their interest rate hikes this year, leading to better returns in bonds.

In general, we expect modest returns for the markets in the coming year with potentially higher volatility. Along the way, we are working diligently to navigate these difficult markets and provide the best possible advice to clients. Being informed about the potential outcomes and having an appropriate investment plan in place will help investors weather the unexpected. ■

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