

## **Don't Do Stupid Things for Smart Reasons**

In the early days of my financial career, I had the privilege of knowing a man I shall only refer to as "Ernie". Ernie was a colorful man with a lifetime of experiences that he would share without hesitation, and Ernie always had an opinion. If you measured Ernie's intelligence by his education, you would consider him ignorant since he never completed high school. If you measured by his accomplishments, you would consider him highly intelligent. You see, Ernie had made himself a wealthy man through hard work and a keen sense of street smarts.

There were many times when I heard Ernie tell someone, "Don't do something stupid for smart reasons". He even uttered these words to me on a number of occasions. And while I have to admit that I didn't necessarily understand what he was saying then, his words have echoed in my mind many times since, especially after doing something that ended up being a bad choice.

In today's world, and especially with respect to investments, there are many smart things that people do. Those investors who have had their money in mutual funds comprised of fixed income investments like bonds have had their wisdom rewarded with stability and income during times of record turbulence in the financial markets.

So what can be stupid about these investments? Simply stated, rising interest rates. Bond mutual funds--which are a basket of different bonds--are interest sensitive investments. Over the past several years, interest rates have dropped to 40-year lows. Those investors who held bond funds prior to this rate decrease have enjoyed appreciated values and solid income.

Over the recent few years many bond issuers have retired their higher-interest debt by refinancing. Bond funds have fared well since there has been a blend of higher interest and current interest bonds in the portfolio. In the future however, interest rates are expected to begin climbing again, especially after the Federal Reserve starts relaxing the current Monetary Policy program that Chairman Bernanke has used to navigate through the waters of the recession. As interest rates climb, the values of current bonds and bond funds will face a decline in value since there is an inverse relationship between bonds and interest rates. When this happens, investors who have not prepared for this may face serious declines in their bond fund values.

Don't do stupid things for smart reasons. If you are currently holding bonds and bond funds in your portfolio, talk to your financial advisor and develop a strategy to deal with this eventual problem. Keep in mind that income can be derived from a number of sources, not just bonds, and as always the key word is diversification.

A good working relationship with your financial advisor or planner is important in anticipating and creating a plan to respond to changes in the markets and in your portfolio. If you don't have a good relationship, find a new advisor or planner. After all, being smart or stupid with your money is up to you.

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