Five Seasons Financial Planning

Guiding You to a Brighter Financial Future

Seasonal Musings

June 2007

Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning (FSFP). In this issue, we'll be discussing investors' obsession with yield, and how that's manifesting itself in the financial markets. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

Be Careful What You Ask For

Rising Rates Threaten the Status Quo

One of the pervasive themes driving returns in the financial markets over the last few years is the relentless hunt for yield. Whether you're talking stocks, bonds or currencies, if you tell me what the investment is yielding, I'll tell you how it has performed on a relative basis.

In stocks, we've seen dividend-paying, "value" stocks outperform growth stocks, and traditionally high- yielding sectors like utilities and REITS generate average 3-year, and even some 5-year returns, well in excess of 20%. In bond markets, we've seen yield curves flatten and credit spreads tighten as the hunt for yield has led investors to take more risk.

In currency markets, high-yielding currencies have out-performed low-yielding currencies (in spite of most textbooks' insistence that the opposite should be expected to occur). This currency relationship has given rise to the so-called "yen-carry trade", in which institutional investors have been able to borrow in yen almost for free and eventually pay back a depreciated currency to boot.

The quest for yield has also spawned a number of new financial products as the financial industry has attempted to cash in on this hunger. For retail investors there must be dozens of new mutual funds or exchange-trade funds that now focus on dividend- paying stocks.

In the institutional world, the search for yield has resulted in the carefree willingness to underwrite and invest in sub-prime mortgage loans. It has also led to the explosive growth in the collateralized debt obligation (CDO) market. There's a good introductory article on CDOs in Saturday's WSJ if you want the gory details, but this quote just about says it all:

"Fans argue that CDOs allow investors to buy into higher-yielding securities while taking on the same risk as they would with safe, lower-yielding securities."

That would be funny if it wasn't so scary.

So what could change this "virtuous circle" where money chases yield, causing higher-yielding investments to outperform, in turn leading investors to chase higher-yielding investments? Two possibilities have shown signs of emerging:

Higher volatility. Although stock markets around the world have more than recovered from February's dive, expected volatility as derived from the options market has never settled back down to the historically low levels we saw before. Typically, changes in these macro-trends in financial markets are accompanied by a quantum leap in volatility (think of the Nasdaq in 2000).

Higher interest rates. Last week, the yield on the 10-year Treasury note hit 5-year highs after rising about a half- percent in less than 2 months. In essence, yield is becoming less scarce around the world. It will be interesting to see if dividend-paying "value" stocks, and sectors like REITS and utilities, can bear the competition. My guess is no.

"Hey, let's be careful out there."
--- Sergeant Phil Esterhaus, "Hill St. Blues"

In Case You Missed It
Fee-Only Advice in the News

"I know I want a "fee-only" adviser and not a "fee- based" adviser. (There's a big difference; the former tends to have fees that are easier to understand.) And I know I want an adviser who acts as my "fiduciary," who puts my financial interests ahead of his or her firm's.

(All financial advisers are not created equal: certified financial planners, brokers, insurance agents and "financial counselors" can have very different obligations and agendas. Failing to understand these distinctions is asking for trouble.)

This means I start by looking at groups like the National Association of Personal Financial Advisors (napfa.org), Cambridge Advisors (cambridgeadvisors.com) and the Garrett Planning Network (garrettplanningnetwork.com), which can direct me to fee-only advisers in my area. (Garrett advisers, in particular, charge by the hour, a more affordable way for many people to begin this process.) It means I start interviewing prospective advisers with a list of questions like the one found at the Certified Financial Planner Board of Standards's cfp.net (under "Learn About Financial Planning" and "How to Choose a Planner"). And it means I get my own financial paperwork in order so I can save time (and money) when I actually sit down with an adviser."

---- an excerpt from an **article** by Glenn Ruffenach, editor, WSJ's Encore section, June 17, 2007.

Five Seasons Financial Planning is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click **here**.

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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