Summer Edition 2020

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Robert G. Elliott's
FINANCIAL NEWS

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Personal Note

In my last update, I was writing from my home office because of the pandemic and the stay-at-home orders from the City of Nashville. We are a few months further into the pandemic, but I returned to my "real" office at the end of May and expect to be here for the duration. Wearing a mask has become normal as have social distancing measures and Zoom meetings. My wife, Cassie, and I have transitioned nicely from eating take out/going to restaurants for the majority of our meals to cooking at home. I think our three dogs enjoy the extra table scraps! Our youngest daughter, Tate, has been working in Dallas all summer and is preparing to return to school for her senior year in college. Hopefully, she will be able to complete the entire academic year and graduate next spring without another pandemic-related shut down. What I am noticing is that despite the trial and tribulations we all face in dealing with Covid 19, most folks are adapting and dealing with the changes in positive ways. Work, education, and leisure have all been transformed the past six months and under these conditions we can hardly blame anyone for throwing up their hands and saying, "This is too hard. I'm just going to wait until the pandemic is over." In times like these, it's easy to feel like we can't do what we want to do or help the people we want to help. Like we can't even make a difference. That's why, over the last few months, I've tried to remember the following wisdom: ***"The difference between ordinary and extraordinary is that little extra."***
– Jimmy Johnson

You see, when we take our ordinary efforts and add just a little bit extra, we can still do amazing things. With that in mind, I'd like to share a few stories I recently came across that show how, when we go the extra mile, even a virus can't prevent us from making a difference.

In South Dakota, a young girl named Rylee just couldn't quite get it. Try as she might, she couldn't figure out the answers to her algebra assignment — and she was starting to get frustrated. In fact, she grew so frustrated that she began to cry.

As difficult as this pandemic is for grown-ups, imagine what it's like for children. For months, they've had to stay away from teachers and friends. From the normal, everyday life they've always known. As uncertain as things are for us, I'm sure it's doubly so for them.

Not far away, Rylee's teacher, Chris, felt frustrated, too. He'd been unable to personally teach his students for some time. Even though they all had access to him via email, some were struggling to make progress. Rylee was one. After exchanging multiple emails, Rylee admitted that she flat out didn't understand the assignment, no matter what Chris said. Maybe it would be better for her to just give up.

That's when Chris realized that simply emailing Rylee – or even talking over the phone – wasn't enough. To help his student, he'd have to do a little bit extra.

A few minutes later, Rylee heard a knock on her door. When she opened the door, there was her teacher, bundled up against the early-spring cold with a whiteboard in one hand and a marker in the other. Over the next hour, Rylee received a personal algebra lesson through the safety of her screen door. And Chris received the joy that comes from seeing a student *get it*. "That's the moment every teacher gets into the profession for," he said. "That's why we get up and do what we do."

Hundreds of miles away, another teacher faced her own dilemma. When the lockdown began, Dr. Cornelia Vertenstein knew it would be a long time before her many piano students would be able to return. Yet she knew there was no other choice. After all, she is 92 years old.

But Dr. Cornelia wasn't about to let age – or a pandemic – stop her from spreading the gift of music. A Holocaust survivor, this situation was *nothing* compared to what she experienced as a child. So, she procured an iPad and figured out how to use FaceTime to conduct remote piano lessons. Soon, her students learned that every lesson would begin at the *exact* time – and that the moment she called, they were to be at the piano, with music, notebook, and pencils all lined up.

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(Allie, Bob, & Sarah)

Personal...

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But that still left the problem of how to conduct annual spring recitals. Once again, Dr. Cornelia waved all obstacles away. As a child, she'd been forced to wear a yellow star everywhere she went. She'd been banned from going to school. She'd worked in labor camps. And through it all, she studied the piano as much as she could. First under fascism, then communism – until she was finally able to flee to the United States in 1963. She had never let anything thwart her love for the piano or her determination to master it. Nor would she let anything prevent her from sharing that love with her students.

So, Dr. Cornelia learned how to use Zoom. With the help of one of the parents, she staged a massive, virtual recital program for each of her young students, insisting that no matter what, the show must go on. But before the music began, she had a message to share:

"With great pride, I introduce my students who prepared themselves with discipline and determination in difficult circumstances. When I was a little girl, I could not go to public schools because of my religion. So, we created a little school in the basement of an old building, which sometimes had heat and sometimes didn't. Great minds and achievements came out of that school, which taught me that in any situation, you can strive, learn, look ahead, and have dreams."

For our last story, we head across the pond to the United Kingdom, where a 99-year old man was preparing to take one of the most important walks of his life.

Captain Tom Moore is a veteran of the Second World War. Despite his age, he has followed everything going on since the pandemic began. As someone who fought on the front lines of a war, he keenly understands what it must be like for the doctors and nurses on the front lines of this one. So, he decided it was high time he did something to help.

The captain announced that he wanted to raise £1,000 for the staff of England's National Health Service. In return, he would walk 100 laps of his 82ft-long garden. For a 99-year old man, this is an epic journey, but Tom was committed. So, with the help of his walker, he set forth. And soon, to his amazement, he learned that the £1,000 he hoped to raise had become £1 *million*. Then 2. Then 3. Then *4*. Since then, Tom has raised over £32 million pounds for doctors and nurses! But he didn't stop there. As soon as he finished his 100 laps, he vowed to walk another 100. He wanted to give a little extra.

I wish you continued health and happiness – and an *extra*ordinary summer!

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[1] People, https://people.com/human-interest/6th-grade-math-teacher -gives-lesson-outside-student-home-social-distancing-coronavirus/?

[2] The NY Times, https://www.nytimes.com /2020/05/15/us/virus-piano-lessons.html?

[3] BBC, https://www.bbc.com/news/uk-england-beds-bucks-herts-52278746

When to Use Tax-Advantaged Accounts

Tax-advantaged savings plans, like 401(k) plans and individual retirement accounts (IRAs), help your money grow faster than taxable investments, but they're not always the right place for your savings. Here is a rundown on when one choice or the other might be appropriate.

Put your money in a tax-advantaged savings plan when:

- Your employer matches your contribution. It's rare that taking advantage of this free money doesn't make sense.
- You already have savings equal to at least three months of living expenses, and if you have dependents, adequate life insurance coverage.
- You already own a home and are comfortably meeting your monthly mortgage payments.
- You haven't met your goal for a retirement nest egg and need the return-enhancing advantage of tax-free compounding to reach it.

Consider not contributing to a tax-advantaged plan when:

- Either you're already at the limit of your employer's matching contribution or your employer doesn't offer one. (Though even in these cases it may still make sense to contribute to your 401(k) plan, as long as the plan's fees and expenses are low and it offers sufficient diversification.)
- The investment choices in your employer's plan charge high annual expense fees. The pre-tax advantage of contributing to a 401(k) plan can be eroded by fees.
- You're in a high tax bracket and want to invest in individual equities for long-term capital gains. Rates on long-term gains are well below the highest federal income tax bracket, and unless you contribute to a ROTH IRA or a ROTH 401(k) plan, you'll have to pay ordinary income taxes on the gains on stocks in a traditional IRA or 401(k) plan.
- You want to diversify beyond the choices available in an employer's retirement plan. If this is the case, you may still want to contribute to an IRA, but through an account with sufficient diversification options.
- You want municipal bonds to be part of your portfolio. If you hold municipal bonds in a traditional IRA or 401(k) plan, any interest income, even tax-exempt income, will be taxed at ordinary income rates when withdrawn. It is better to hold municipal bonds in taxable accounts so the tax-exempt interest income is not taxable.

Bond Price Fluctuations

There are two primary factors that affect bond prices, interest rate changes and credit rating changes. Interest rate changes typically will cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond’s price adjusts down, while the bond’s price will increase when rates decrease. Simply put, bond prices and interest rates move in the opposite direction. Also, bonds with longer maturity dates are more vulnerable to interest rate changes, since the difference will impact the bond for a longer time period.

Credit ratings also influence a bond’s price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond’s investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond’s price tends to decline when a rating is downgraded and increase when a rating is upgraded. The price change brings the bond’s yield in line with other similarly rated bonds. However, these price changes are typically minor if the rating changes by only one notch. Certain downgrades are more significant, such as a downgrade that moves a bond from an investment-grade to a speculative rating, a downgrade of more than one notch, and a series of downgrades over a short period of time. In those situations, you should review whether you want to continue to hold the bond.

If you want to minimize the risk of price fluctuations, consider these tips:

- If you hold a bond to maturity, you receive the full principal value, so you won’t be affected by any price fluctuations.
- Consider investing in bonds with shorter-term maturities, which are less susceptible to interest rate changes.
- Design your bond portfolio using a ladder, so you’ll have bonds coming due every year or so. This strategy typically lessens the effects of interest rate changes. Since the bonds are held to maturity, changing interest rates won’t result in a gain or loss from a sale. Bonds are maturing every year or two, so your principal is reinvested over a period of time instead of in one lump sum. If interest rates rise, you have principal coming due every year or so to reinvest at higher rates. In a declining interest rate environment, you have some funds in long-term bonds with higher interest rates. A bond ladder keeps your bond portfolio invested in a range of maturity dates.
- Choose bonds that match your risk tolerance. Safer bonds, such as US Treasury bonds or investment-grade corporate bonds, are less susceptible to credit rating risks.

Municipal Bonds

We offer the following bonds subject to prior sale or change in price as of August 7, 2020.

Ref No	Issuer	Maturity Date	Coupon	Yield to Maturity	Yield to Call	Call Date	Rating	Price
1	Tennessee HSG DEV AGY	07/01/42	3.850	3.112	2.028	07/01/27	Aa1/AA+	111.657
2	Gallatin TN Gas Sys Revenue	01/01/38	3.125	2.344	1.700	01/01/29	AA -	111.095
3	Wilson County TN	04/01/33	3.000	2.235	1.140	04/01/25	AA +	108.38
4	Knoxville TN Elec Revenue	07/01/41	3.000	2.565	1.510	07/01/25	Aa2/AA	106.995
5	Chattanooga TN Elec Revenue	09/01/32	5.000	2.863	0.640	09/01/25	AA	121.654

Although the information and statistics are not guaranteed, they have been obtained from reliable sources and are believed to be accurate. All put/call information may not be displayed and Wiley Bros.-Aintree Capital assumes no responsibility for such undisclosed features or omissions. All are subject to market conditions and/or prior sale.

Callable at 100% beginning of the call date above and every call date thereafter with 30 days notice.

In addition to the bonds listed, we have several other corporate bonds available. If you are looking for a specific bond or maturity, please feel free to contact me with your requests.

We are also interested in buying corporate bonds. If you have bonds for sale, please call me for a bid and details on how you can convert your present bonds to cash or alternative investments.

Finally, new bonds are coming to market every day. If you give me a call, I will be more than happy to go over current market offerings and conditions with you.

The Yield Curve as an Economic Indicator

There's an old saying on Wall Street that the stock market is the prisoner of the bond market. What this is supposed to mean is that the bond market sets the interest rates businesses have to pay for loans, and how high or low they are is a key determinant of future profits and stock prices.

As with many Wall Street sayings, it's interesting, but can it help predict the direction of the stock market? Surprisingly, there is a bond market-derived indicator that has been correlated with the future direction of the stock market. It's a leading indicator called the yield curve. But the yield curve has predicted more recessions than have actually occurred (in other words, it's not a perfect indicator).

The yield curve is a line on a graph that traces bond interest rates by maturity, and the major one tracks US Treasury debt securities. With interest rates plotted on the vertical axis and time until maturity on the horizontal axis, in normal times for the US economy, the yield curve traces out an upward sloping shape.

A normal economy is one that is growing at a healthy, sustainable rate, with interest rates stable in a comfortable range and stock prices rising steadily. The general reason for the normal yield curve's shape is that bond investors demand to be paid for risk – the longer the maturity, the more return investors require to compensate for the risk that inflation will push up interest rates and the prices of existing bonds will go down.

But when the economy isn't faring so well, the yield curve changes. If, for example, inflation expectations are low and the economy is weak, the Federal Reserve Board will often cut short-term interest rates, and the steepness of the rise from very short-term yields to intermediate yields increases. The result is a steep yield curve, which is generally a sign that the economy will start to improve somewhere in the foreseeable future. The question, as always, is when.

On the other hand, when the Fed believes inflation is too high, it raises short-term interest rates. The result can be short-term yields that are higher than intermediate- or long-term yields. In this case, the yield curve is said to be inverted, and the indication is that the economy is headed for a recession. And given that stock market prices tend to move ahead of the economy, the implication is that the stock market is headed for a decline.

A 1996 study by economists at the Federal Reserve Bank of New York, found that one particular detail of an inverted yield curve was an accurate predictor of recessions: the difference between the yield on 10-year Treasury notes and the 3-month Treasury bill.

The study found that when the yield on the 3-month bill was one percentage point higher than the 10-year note, there was more than a 50% chance of a recession within the next 12 months. When the difference was more than 2 percentage points, the probability of a recession rose to more than 80%. The point to note is that the yield curve can't predict a recession with 100% accuracy, and observers note there have been at least two false signals since 1996.

So, as accurate a forecaster of recessions as an inverted yield curve may be, many issues remain for the investor:

- Will a recession actually occur this time, and if so, when?
- When will a bear market begin, how long will it last, and how deep will it be?
- Which stocks and sectors will be affected?
- Is there any reason to keep a significant portion of a portfolio invested in stocks?
- Does it make sense to continue to buy stocks through a bear market to take advantage of dollar cost averaging?

Please call if you would like to discuss this in more detail.

A Note from Sarah

Back in the office! I never expected to be as excited as I was to get back into our office, but here we are. I am grateful that I am able to leave my house again after working remotely and living at home for months. While in the office, I stay close to my desk most of the time with the door closed to maintain proper social distancing, but the change of scenery from home has been nice. Outside of the office I've been spending a lot of time outside by hiking around Percy Priest lake and taking my dog, Sammy, on walks around McCabe Park Greenway. There is still so much uncertainty surrounding Covid 19, but I am taking everything day by day and I look forward to being able to take my mask off for good!

A Note from Allie

Who knew the new normal would be shopping for cute new masks to wear to work? After a couple months of working at home, I was excited to get back to the office! We have all now adapted to the new atmosphere of social distancing and wearing our masks. Despite these changes, it feels nice to be in our regular work environment and break free from what had become a very monotonous day-to-day work from home schedule. I must say, the break in Green Hills traffic was a nice perk of quarantine! Although, it is much more comforting seeing people back on the roads, and stores re-opening. I am thankful for the extra time spent with my husband, Jack, and the extra-long walks we enjoyed with our dog, Nola, over quarantine. Even though we have not been able to travel as much as we normally would, we are grateful for what we have been able to do and family we have been able to visit. I look forward to things returning to "normal" soon, whatever that may be. Stay safe, and please give us a call if we can help with anything!