American Heritage Securities, Inc.
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“This is your time. Their time is done”

Could this famous quote be applied to today’s bond market?

Coach Herb Brooks of the 1980 “Miracle on Ice” U.S. Olympic Hockey Team was referring to his Russian opponents when he said, *“This is your time. Their time is done. It’s over.”* Today, instead of Russian hockey players, the quote can be applied to bond investors.

On June 20, 2013, the bond market may have experienced the defining moment of this generation when U.S. Treasury bond prices suffered one of the biggest one day collapses ever. Yields on benchmark ten-year bonds reached 2.5% and the 30-year Treasury moved above 3.50%. After many false alarms over recent years, the market action on June 20 appears to signal the start of a long-term trajectory higher for interest rates. It will not be a smooth or steady transition as we are working off years of suppressed interest rates and reversing a bull market that dates back to the early 1980’s….but it has begun.

Like all bubbles, the end of the bond bull market has been long predicted, yet the beginning of this sea change exploded with a fury that seemed to catch both professional and amateur investors off guard. Typical of bull market bubbles, the bull market in bonds (i.e. low interest rates) went much farther and lasted much longer than anyone ever thought possible. Bonds have been on the verge of reversing for years now. The bond bull market last seemed to be ending five years ago, but then the Fed stepped in and decided the only way to prop up the economy was to push interest rates to near zero. The Fed’s intervention has been massive and extreme so the recent hint by Ben Bernanke that the Fed will begin to scale back its programs sent bond investors—rightfully—rushing for the exits.

It is also why a completely different approach to retirement income is warranted today versus any other time in most investor’s lives. While bond investors have struggled with low interest rates over recent years, they benefited at the same time from rising bond prices. Bond prices move in the opposite direction of interest rates, thus, when interest rates rise, bond prices decline—often much more dramatically than investors expect. We believe we are at a critical—and long-term—turning point for income oriented bond investors. Even the most well-crafted bond portfolio will suffer loss of market value over the coming years. Some long-dated (10 to 30 years in maturity) bond mutual funds are certain to be disasters. What used to consider the “conservative” part of a portfolio will likely be the most disappointing—and dangerous—over the next few years. Most investors understand that the stock market comes with volatility and loss potential. They may soon realize that bonds are no different. It is just that bonds have been different for three decades. Not anymore. “*This is your time. Their time is done. It’s over.”*

Has your advisor reviewed your fixed income holdings and prepared your portfolio for higher rates? You may not even be aware of bond holdings in “balanced” mutual funds or in your 401K. It is imperative that all your fixed investments be reviewed now. Contact American Heritage Financial today to discuss your alternatives.

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