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Rebalance and Reallocation

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"Listening to and understanding our client's financial goals allows us to provide the highest level of investment planning advice and service."

Fund Changes

Fidelity Inflation Protection Bonds - Sell

The decision to sell the Inflation Protection Bond fund is twofold. First, inflation in the U.S. is historically low at or near 2%. The Fed's actions in the 4th quarter show that at the hint of increased growth and upward pricing pressure, they will act deliberately to increase rates. Predicting the Feds moves is always difficult but recent Fed chairs have not shied away from raising rates and keeping inflation at bay. Second, the holdings of the fund are 100% Treasury bonds and over the past number of years, the portfolios within core bond funds have increased allocation towards Treasury holdings. Both reasons together were compelling to sell all and allocate towards a core intermediate fund that holds diversified bonds. The fund itself is still a solid choice for the space and we may revisit purchasing it again as economic changes dictate.

<u>Tax Sensitive Accounts</u>
BMO Intermediate Tax Free – Reduce by 50%
Fidelity Intermediate Muni Bond – Buy

or

<u>Qualified or Low Tax Accounts</u>
Guggenheim Investment Grade – Reduce by 50%
Fidelity US Bond Index – Buy

Both the BMO Intermediate Tax Free and the Guggenheim Investment Grade underperformed slightly due to their conservative viewpoints towards credit and expectations of interest rates increasing. The conservative nature of their investment managers was and is an attractive attribute that simply isn't rewarded during expanding domestic credit markets. Our reduction in both is, again, one where we wanted to add to the diversification of our overall portfolios. Using the Fidelity funds are a great way to maintain the core bond exposure and keep internal fund expenses low. All while limiting risk of viewpoint error in holding only one bond fund manager within the Intermediate Bond allocation.

Allocation Changes

We have maintained our proportion of equity to fixed income. We are making two adjustments, one within equity allocation and then a combined change within fixed income. Within equity we have reduced our holdings in the S&P 500 and increased the core Large International equity by 1 – 2%. This maintains the overweight in domestic equity but recognizes the attractive valuation in the international space. We aren't going to win any prizes for speed or magnitude of change, but we are taking a deliberate approach as we balance the risks and rewards in both spaces.

Within fixed income, we have reduced our short-term position and increased the intermediate allocation thereby slightly increasing the duration. We have reduced the credit quality and increased yield slightly and more in line with how core bond portfolios were allocated in years past. We still maintain a conservative view towards credit quality   Our view is that the low interest rates will remain low for the short term and we will adjust accordingly as markets and the Fed outlook changes.

Allocation in Real Estate, Emerging Markets, Alternatives, and High Yield Bonds have remained the same. Within equity our tilt towards value over growth has remained the same.