

## The Rate Increase and Your Portfolio

Written by Rob Copeland  
Friday, 14 August 2015 10:48 -

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For months, the financial media have been focused on the likelihood that the Federal Reserve will soon start the process of raising interest rates.

The expectation of rate increases is one reason the stock and bond markets have been in a funk lately. It hasn't helped that so many commentators have been hyperventilating over the subject.

Times like these are when it's especially important for investors to use their head, not their gut, in making decisions. That means keeping your money in the market and looking for opportunities. There's always money to be made, whether interest rates are going up or down.

Here's the background: The U.S. economy has largely recovered from the real estate crash and ensuing recession. A big part of the reason is the fact that the Fed has kept rates near zero in order to prop up the economy. With rock-bottom rates having done their job, the Fed's decision-makers now want to raise rates.

This is meant to keep the economy from overheating and to avoid dangerous bubbles like the ones we've seen in technology and in real estate. Raising rates also gives the Fed a weapon to fight the next recession—the ability to once again lower rates and stimulate the economy.

The million-dollar question is when the Fed will raise rates and where will they stop. Some Fed-watchers expect them to act as soon as September, while others believe they'll hold off until next year.

As we move forward, it's especially important to tune out the cable-news commentators who are whipping up viewers' fear and greed. Very often the money managers you see on television have a hidden agenda: To drive a particular investment up or down so that they can benefit.

Many financial advisors have been over-reacting to the raise increases as well. Just keep in mind that probably half the advisors working today weren't even in the business in 2004, which

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is the last time the Fed raised interest rates.

The fact is that markets usually withstand rate increases pretty well. Historically, the S&P 500 has risen by 2.5% in the first six months after the Fed starts raising rates. And that's still twice what you'll earn in bank CDs or money market funds.

In the coming months, a good advisor will be able to help you identify promising investments, and even investments that have historically done better in rising-rate environments (think financials).

The bottom line: Tune out the gloom-and-doom hype, keep your cool and follow your head, not the herd. Feel free to give us a call if you'd like to discuss investing further.