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Signature Estate & Investment Advisors LLC
Paul Taghibagi, CFP®, ChFC®, AIF®, Senior Partner

“What is the best investment strategy in a rising interest rate environment?”

By Paul Taghibagi

As the economy continues to improve, interest rates will likely begin to rise from their historic lows of recent years. In planning proactively for this type of inevitability, it is imperative to review your portfolio mix, paying particular attention to bond holdings.

When it comes to investing, most people think of a conservative portfolio as one that has a high allocation to bonds, but this is not necessarily true in a rising interest rate environment. Remember, it is a mathematical certainty that bonds and interest rates have an inverse relationship, meaning that, as interest rates rise, the principal value of bonds declines.

So in a rising interest rate environment, if you have a heavy allocation to bonds there are a number of protective steps to consider when it comes to adjusting your portfolio.

01 Reduce the proportion of fixed rate bonds and increase the proportion to stocks. If your current allocation is 20 percent stocks/80 percent bonds, consider adjusting to 35 percent stocks/65 percent bonds. If you are already at 35/65, look at 50 percent stocks /50 percent bonds. And if you are 100 percent bonds, consider allocating 25 percent to stocks. When selecting stocks to replace bonds, focus on dividend paying stocks. While dividend paying stock values can go up and down, they tend to be less volatile than non-dividend paying stocks.

02 Reduce the bond maturities in your portfolio since longer maturity bonds are harder hit when rates rise than are those with shorter maturity.

03 Increase your allocation to floating rate bonds whose rate fluctuates in step with market interest rates, making them less susceptible to rising interest rates. And while rated lower than government bonds, they have a senior, secured position in the capital structure and are highly liquid.

Also consider these strategies :

04 Use foreign bonds, especially in countries where the rates are higher than in the U.S. Foreign bond securities tend to have lower sensitivity to U.S. interest rates and typically deliver a higher return. Additionally, many foreign countries are behind the rising interest rate curve compared to that of the U.S.

05 Make an allocation to alternative investments such as commodities, oil and gold as well as real estate investment trusts (REITS). REITS are listed securities that trade on stock exchanges, and not only offer a liquid way to invest in real estate, but tend to deliver high yields.

06 Buy Treasury inflation-protected securities (TIPS) whose value increases as inflation increases and decreases with deflation. It is very common to have increasing inflation during times of rising interest rates.

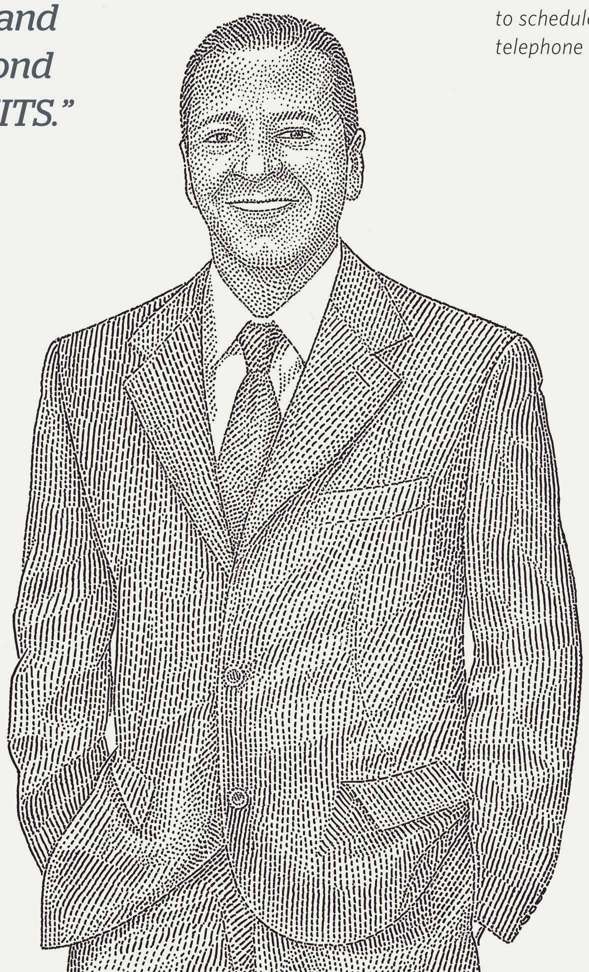
In sum, remember that each phase of the economy favors a different asset class. Make sure that your portfolio is properly allocated for the current market environment.

"When rates rise, oil and gold offer another bond alternative, as do REITS."

—Paul Taghibagi

How to reach **Paul Taghibagi**

Please call my office at 310.712.2323 *to schedule a meeting, either over the telephone or in person.*



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Coaching my daughter's soccer team

MY FAVORITE AUTHOR IS...

Jules Verne

IF I WEREN'T A WEALTH ADVISOR, I'D BE...

The CEO of a publicly traded company

About Paul Taghibagi

Paul Taghibagi, CFP, ChFC, AIF, has been in the securities industry since 1990 and is one of the four founding partners of SEIA LLC. Less than 10 years after its inception, SEIA reached the milestone of $1 billion in assets under management. Mr. Taghibagi graduated with honors from the University of California-Santa Barbara, with a bachelor of science degree in business economics, and he is a certified financial planner. His emphasis is investment planning and wealth management for affluent individuals, foundations and corporations. Additionally, he is a member of SEIA's investment committee. Mr. Taghibagi lives in Pacific Palisades, Calif., with his wife and two daughters.

Assets Under Management
$376 million (Taghibagi)
$2.7 billion (firm, as of 12/31/12)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$1 million (investment services)
$5 million (Private Client Group)

Largest Client Net Worth $100 million

Financial Services Experience
23 years

Compensation Method Asset-based and fixed fees

Primary Custodian for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Investment advisory and money management services; estate, retirement, corporate benefits, income tax and insurance planning

Association Memberships
Financial Planning Association, National Association of Insurance and Financial Advisors and ProVisors

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