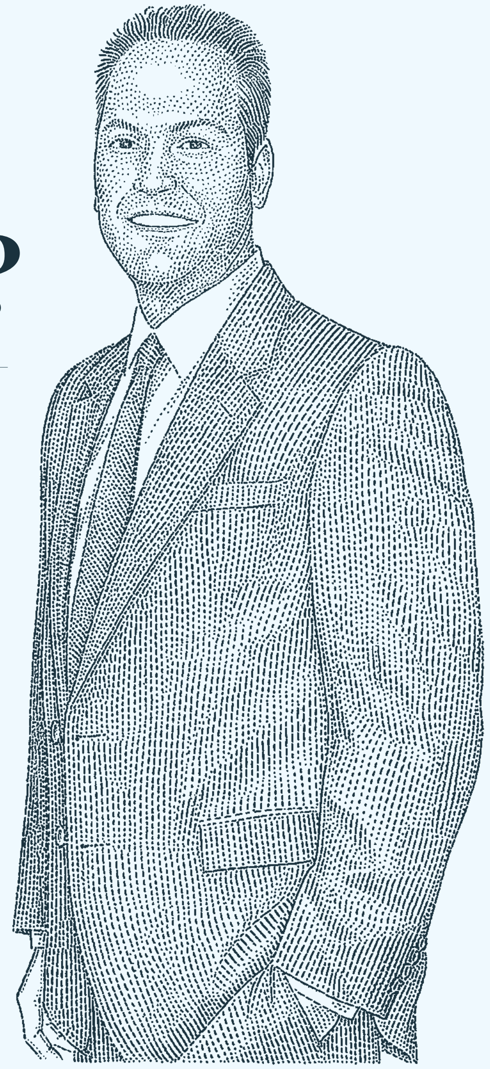
How do I rebalance ahead of the next recession?

BY VINCE A. DILEVA, MS, CFP®, AIF®



SIGNATURE ESTATE & INVESTMENT ADVISORS LLC | 1815 Via El Prado, Suite 100, Redondo Beach, CA 90277 | 310.712.2320

TEAM
Vince A. DiLeva, MS, CFP®, AIF®, Senior Partner

ASSETS UNDER MANAGEMENT
$425 million (DiLeva)
$5.1 billion (firm, as of 12/31/15)

MINIMUM FEE FOR INITIAL MEETING
None required

MINIMUM NET WORTH REQUIREMENT
$500,000 (for investment services)
$5 million (Private Client Group)

LARGEST CLIENT NET WORTH
Confidential

FINANCIAL SERVICES EXPERIENCE
19 years

COMPENSATION METHOD
Asset-based and fixed fees

PRIMARY CUSTODIAN FOR INVESTOR ASSETS
Charles Schwab and Fidelity

PROFESSIONAL SERVICES PROVIDED
Investment advisory services, money management services and retirement and estate planning

EMAIL
vdileva@seia.com

WEBSITE
www.seia.com

ILLUSTRATION BY KEVIN SPROULS

The question is not 'if,' but rather 'when' the next recession will come. Recessions do not follow any set schedule, but are based on economic business cycles. And it seems that each time one occurs, investors and governments are surprised and unprepared.

In reality, however, since World War II, the United States has had, on average, a recession once every five or so years. Today, now that more than six years have passed since the last recession ended, it makes sense to consider that we are closer to, not further from, another such economic decline.

In fact, the Great Recession of 2008–2009 is now a distant memory. The current U.S. recovery, boosted by quantitative easing measures by the Fed, has been slow, with anemic economic growth. This continued slow growth, combined with rising interest rates, might push the nation into the next recession within a few years.

Indeed, many believe the next recession will come sometime between 2017–2019. With that in mind, here are a few strategies worth considering:

First, consider rebalancing your bond portfolio now, based on the current economic environment. You should have your high-yield bonds structured with a short-term bond ladder. With the higher risk of recession looming, I would want my junk bonds to mature sooner, with less economic clarity in the long term.

Those junk bonds should mature in the 2016–2019 time frame. I would not own a junk bond mutual fund right now since these funds do not have a set maturity date and are more likely to be impacted as interest rates rise. I also would ensure that my higher-quality investment-grade bonds are laddered to mature in the 2020–2025 time frame. If we do have a recession in 2017 or 2018, I would want my junk bonds maturing, and my high-quality bonds, as the core of my bond portfolio, to then be sitting on the short-to-intermediate end of the yield curve.

Another area of the bond market that looks like a value is emerging market debt. Yields are currently in the 5 percent range, and this is a bond market that has underperformed over the last few years, so there may be some opportunity in this asset class. Also, owning bonds in other countries helps diversify your portfolio against only owning in the United States, given their differing correlations.

Further, consider a covered call strategy to increase income with U.S. large-cap stocks. Buying U.S. dividend stocks and writing covered calls on them may maximize your income on this portion of the portfolio. When a stock market is fairly priced, with minimal growth forecast, a covered call strategy helps increase yield in your portfolio. Focusing on income can help offset any lack of appreciation in the equity markets.

> “The question is not 'if,' but rather 'when' the next recession will come.”

The U.S. Federal Reserve and the world's central banks are currently moving in opposite directions. In the United States, the Fed is tightening monetary policy, while Europe and China are easing their respective monetary policies.

Therefore, U.S. borrowing costs will increase for corporations and individuals, and that will put pressure on corporate earnings and real estate prices. One bright spot in the U.S. market is that financial stocks should do well as rates rise over the next few years.

In the overseas markets, meanwhile, lower rates may help increase corporate profits and make international real estate potentially more attractive. We have seen firsthand what low interest rates have done to real estate prices in the United States over the last six years, and an opportunity overseas may be developing to follow suit.

These types of adjustments will help prepare your portfolio as the next recession looms. ●

ABOUT US

VINCE A. DILEVA HAS BEEN IN THE FINANCIAL SERVICES INDUSTRY FOR 19 YEARS. HE JOINED SIGNATURE ESTATE & INVESTMENT ADVISORS LLC IN 1997 AS THE FIRM WAS FIRST OPENING ITS DOORS. In less than 10 years, SEIA reached its $1 billion in assets under management milestone, and the following year, Mr. DiLeva was named a senior partner. Mr. DiLeva is a Certified Financial Planner™ professional and holds an MS degree in financial services. He specializes in investment management and overall wealth management strategies for affluent individuals and corporations. Mr. DiLeva lives in Redondo Beach, Calif., with his wife and three children. ●