Fed signal sends advisers into fixed-income scramble

Prospect of the first interest-rate cut in 10 years has some advisers fearing recession

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By **Jeff Benjamin**

The **Federal Reserve** Board's signal earlier this week that it is **preparing for its first interest-rate cut** in 10 years sent a chill through some corners of the financial planning industry, as rate cuts typically indicate **rough times ahead.**

"We have increased our defensive positions as this recovery has aged," said David Demming, president of Demming Financial Services.

"During most of the recent years when the government telegraphed rate increases, we kept our maturities short so as not to be adversely affected by Fed increases," Mr.

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the converse, lengthening maturities to intermediate terms while never chasing yield or sacrificing credit quality."

The Fed's announcement came as the stock market was hovering near record-level territory. While not a complete surprise, it does stand in stark contrast to the Fed's signaling nine months ago that a series of rate hikes were coming in 2019.

Ben Smith, founder of Cove Financial Planning, said Fed announcements are usually followed by calls from clients, and this time was no different.

"Because rates cuts are likely imminent, I agree with the importance of assessing fixed-income exposure in portfolios," Mr. Smith said. "Taking a very close look at duration is, of course, important, but I think assessing credit quality and regional exposure is nearly as important. For clients that are particularly concerned about their fixed-income exposure, or for those who really can't tolerate a dip in their bonds, short-duration and even high-yield money market options might make sense."

B. Brandon Mackie, managing associate at Felton & Peel Wealth Management, plans to stick with his current

Mr. Mackie, a former bond trader, typically separates his clients' fixed-income allocations into three sleeves with extending maturities. However, lower bond yields and the inverted yield curve have him reducing that to just two sleeves, including certificates of deposit and bonds with maturities of less than two years.

"We're not going any longer than two years right now, and by setting it up this way, it doesn't matter what's happening in the overall market," he said. "For this portion of the bond portfolio, if we're right, great, and if we're not right, it doesn't destroy anything."

Immediately following the Fed meeting Wednesday, **Jeffrey Gundlach, chief executive of DoubleLine Funds,** said the only thing that will prevent a rate cut at the Fed's July or September meetings is strong economic data, which Mr. Gundlach is not expecting to see.

An interest-rate cut, he added, is a signal that the economy is weakening and the Fed is behind the curve.

"A rate cut would increase the probability of a recession," he said. "There's no historical evidence that a rate cut stops a recession."

Kashif Ahmed, president of American Private Wealth, described the Fed's plans to cut rates as "foolish and reckless," and suggested the Fed might be "succumbing to pressure" from the White House.

"I feel that corporate debt may be inching toward a bubble," Mr. Ahmed said. "Prudence is definitely warranted in fixed-income selection."

Kenneth Waltzer, co-founder and managing director of KCS Wealth Advisory, is not completely convinced that a recession is coming, but is "hedging in both directions" just to be safe.

"We're very late cycle, but it's not clear if we're at a point where money will be tightening or is the Fed really going to reverse because the cycle is even later and we're nearing a recession?" he said. "My feeling is we're going to reaccelerate, and the Fed won't need to cut rates, or we'll have one-and-done."

Mr. Waltzer is hedging the risks he sees by lowering the exposure to riskier bonds and sticking with shorter-maturity bonds.

"It doesn't make sense right now to reach for yield or reach for duration, so we're staying short," he said.

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