cial Advisors Grapple With Fed Policy

From investing in dividend-paying stocks to holding more cash, advisors are offering clients ways to deal with high interest rates.

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In the wake of the Federal Reserve's closely watched "hawkish pause," announced Wednesday, which leaves interest rates in the 5.25% range for now, financial advisors are rolling up their sleeves with creative strategies for guiding clients through a less-certain economic cycle.

"The wake-up call is that the Fed doesn't seem to see a reason to cut rates, so making a bet on cuts is a gutsy move right now," said Brian Spinelli, co-chief investment officer at Halbert Hargrove.

"The stock market is still seeing potential for another rate hike this year," he added. "The investment strategy at this point is recognizing this is why you diversify."

Michael Silberberg, head of investor relations at Alt-Tab Capital, is interpreting the Fed's messaging to be that rates are at or near their peak.

"It is hard for us to take [Wednesday's] announcement with too much optimism," he said. "With 99% of forecasts predicting no change at the FOMC (Federal Open Market Committee) meeting, it was clear that we would see a stabilization of interest rate policy moving forward; however, it came as a surprise that the report emphasized slower rate cuts moving forward than previously projected."

According to Silberberg, the Fed's acknowledgement that inflation is trending lower could be interpreted by some as bullish for risky assets.

A Dividend Play

But loading up on risk is not on the mind of Kashif Ahmed, president of American Private Wealth. "I'm mostly allocating to dividend-paying mature stocks, where you get paid rend every quarter," he said.

Regarding the bond market and the impact of interest rates, Ahmed said, "I haven't touched fixed income in years. "The most I have is maybe 3% in bonds for maybe a handful of clients," he added. "It's just not worth it."

Ahmed supports the Fed's current policy of higher rates for longer "to flush out the stupidity in the system."

"Rates being too low causes reckless decision making," he said. "I think higher rates overall is better and I don't think the Fed should start the music again."

High Interest Rates for a While

All indications are that the music of lower rates will be on mute for a while as the Fed continues to signal a preference for the status quo.

With that in mind, Josh Brown, CEO of Ritholtz Wealth Management, said duration is being lengthened in clients' bond portfolios. "In 2020, you weren't getting any difference in yield, so we shortened duration substantially," he said. "That was the right move, and we haven't done anything since, but now we're making a bet on a little more duration."

As Brown sees it, a 4.5% yield on a 10-year Treasury outweighs a 5% yield on a six-month T-bill when rates are at these elevated levels and more likely to go down than up. "If you can lock in an almost comparable rate for a longer period of time, why wouldn't you do that?" he said.

The Mortgage and Carl Loan Challenge

Beyond portfolio management, Ron Strobel, financial advisor at Retire Sensibly, said the reality of higher rates is creating challenges and opportunities.

When it comes to mortgages, he said, "there's no obvious answer when comparing whether it makes more sense to pay off a 7% or higher mortgage early or to invest in a portfolio that has projected returns around that same rate."

For car loans, Strobel said it makes sense for some clients to avoid the higher loan rates by tapping cash reserves to avoid the impact of auto loans that are hovering around 10%.

And for those clients able to hold cash, these are the good times.

"Investors who are holding cash have an opportunity to receive fairly high yields for the first time in decades," Strobel said. "It's rewarding to those of us who have followed classic financial principles like maintaining a liquid emergency fund."

Potential Entry Point in Stocks

David Tenerelli, a financial planner with Strategic Financial Planning, said he generally avoids sudden portfolio adjustments in response to Fed policy, but he does see a potential entry point for investors is stock prices are held down as a result of the elevated rates.

"The next few years could prove to be a good time for those in the workforce to contribute to their portfolios," he said. "Ultimately, it's difficult to make a case to put too much weight on monetary policy prognostication when individual and families are making investment decisions."

Jeff Benjamin

Jeff Benjamin is a veteran journalist with more than 30 years' experience covering the financial markets and broader financial services industry. He most recently worked as a senior columnist at InvestmentNews, and prior to that was an analyst at Cerulli Associates and a money management reporter at Dow Jones Newswires. Based in North Carolina, Benjamin is a former Marine and has a bachelor's degree in journalism from Central Michigan University.