

Skate to Where the Puck is Going

The great Wayne Gretzky attributed his success to his ability to skate to where the puck was going, instead of where it currently was, like everyone else. If you have a lot of your assets sitting in a money market earning 5%, you are not skating to where the puck is going.

Currently there is over 6.3 trillion* that is currently in money market funds. Money market is great in a rising interest rate environment, but interest rates are expected to fall. How do we know this? The bankers of the Federal Reserve who set interest rates told us this in June when they all gave their quarterly opinions of the economy and the projected path of future interest rates.

These opinions are summarized in a “dot plot” which is a chart that summarizes where each Fed official sees interest rates going in the future. According to the dot plot, the fed funds rate will drop from 5.25% to about 4% next year and about 3% in 2026. There is no guarantee these projections will be accurate but both borrowers and savers need to make projections, and the dot plot is often utilized for that purpose.

Borrowers who refinanced their home, near or below 3% when interest rates were low, possibly made one of the greatest trades of their lives. If you are a lender or investor and you want to skate to where the puck is going, you probably want to lock in interest rates for a long time before they go down.

One way to lock in higher rates for the rest of your life is to invest in a lifetime income stream from an insurance company. According to Barron's, higher interest rates have boosted guaranteed pension-like income offered by fixed-indexed annuities, which protect principal while tying returns to a stock market index. Current payouts are 25% higher than they were a year ago. Locking in 6.5% guaranteed interest that creates partially nontaxable lifetime income from an insurance company before rates fall could be the next great trade.

*Bloomberg

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