



Hello ladies and gentlemen, I can't believe it is that time again. This rolls around so fast I can hardly keep up, but now it's MAG Corner time again. I hope this one finds you well with your family and your health. I hope you have followed my advice in the last couple MAG Corners and have now locked your credit down, you've set yourself up to get notified if there's a change on your deed, and you're exceedingly careful anytime you're online to be very aware of the scams that are being attempted daily.

In this MAG Corner, I'm going to focus on a broad spectrum of issues. I want to first cover market conditions. We mentioned several months ago that we doubted the Fed would lower rates anytime soon. This is proving to be true. They originally indicated we might have up to three reductions before the end of the year. They are changing their tune and are now hinting that we may not even get one. If we do, it will be most likely because we're in a crushing recession that could cause a lot of damage.

One of my biggest concerns is the fact that in the United States, we have billions of dollars in office real estate debt that is to be renewed at much higher interest rates by the end of this year. This will significantly increase the debt payments by the real estate owners to their banks, or lenders. The still very low occupancy rate left over from Covid means low revenue, making it very difficult for some of those real estate owners to stay solvent. Forty-nine percent of this debt is held by regional banks. I am deeply concerned about a situation where real estate bankruptcies could cause a cascading contagion bank failure to take place.

For the economy as a whole, we have also noticed that company earnings reports are not as rosy as they were last year, and we are definitely starting to see a tightening up on company finances. The companies are not as optimistic as they were last year. You may not be aware of this, but one of the more important roles we do for you is to listen in on every earnings call with every company we're invested in. This is a big job because each call is 1 to 2 hours long and you have over 60 of them to do every quarter. It is a lot of time and work! This is one of the reasons why most advisors don't want to do business the way we do. But we believe this is critical to keep our investments as safe as possible. To that end, we do not invest very much in any one company. Typically, 3% is about as high as we'll go, with most of the assets ranging between 1% and 2% per company. We believe this diversification to be important, but it does add a lot of work. We are happy to do this because we believe you pay us to earn you the safest, highest yield possible.

Secondly, we are reinvesting some of your income to make it grow every year. People who are in the stock market must sell off assets to get income. When the market drops, they will take an insane beating because they will have to sell so much more to get the same income. And that forever locks in those losses! The market dropping can and does impact our balances, but I want you to remember two very important things. One, we are not selling and locking those losses in to provide income. Our income comes from interest and dividends. Two, when your balance drops this means we can now buy assets on sale. This will allow us to buy more with each dollar and get a much higher yield than when your balance is high, thus growing your income faster. Always remember it's not how big your balance is, but how much you can take from that balance without the worry of it running out. We are not trying to keep your balance in front of inflation; we are trying to keep your income ahead of inflation. We want to grow those incomes every year regardless of the balance. This is how we deal with inflation.

The last thing I want to cover is we have had several clients call us and talk about different annuities they've been offered. Many of you don't even know that we offer annuities. They were part of our offering mix up until Covid happened. It's important to understand that the quality of products offered greatly depends on what interest rates are doing. In short, an annuity is when an insurance company takes money deposited with them (when someone buys an annuity), invests those dollars, and earns interest with those dollars. They will take a small % of that interest as profit. They will take most of the interest to make a product like an annuity. Why? So, they can attract more dollars to be invested, of which they will take their small percentage. This is how they make their money. They will try to build the best product they can with the dollars they have. Consequently, the higher the interest they can earn, the better the product they will build.

Just the opposite happens when interest rates are low; the product offerings become worse. A good example of this would be the company significantly lowering their contractual lifetime payouts on an annuity. This is exactly what happened during Covid, and why they were part of our offering prior to the pandemic. The government response to the crisis was to lower the rates to all-time lows. As a result, the annuity products became very unattractive, and we quit offering them because we had better options. With many of our more recent clients, I have never breathed the word annuity because rates were so low it wouldn't, in my opinion, be in their best interest. Remember, we are fiduciaries. This means that I'm obligated to suggest things that are in your best interest above all else.

This brings me to today. Currently, we have some of the highest interest rates I've seen in my career, and as a result some of the annuity products being offered are the best I have ever seen in my career. As some of you know, we've been able to replace older contracts with newer contracts giving significant increases in what the contract pays out. If you're wondering about annuities, and if they would be good for you, please give us a call and we will be happy to discuss that with you. You hear a lot of bad things about annuities. Truth be told, some of them are complete garbage. That's sad, because the right annuity can be a very strong tool to use for income retirement needs.

Essentially, an annuity can give you a guaranteed income that doesn't run out. It is insured and very, very safe. In the old days, buying an annuity meant giving up the principal in an exchange for that guaranteed income. This is no longer the case. You can get extremely strong payouts and not forfeit your balance to make it happen. For me, when it comes to an annuity, it's about what percentage of income will it pay for life. It's important to note that they will pay for life, even if there is no cash left in the account. I would tell you that the payouts we have now are higher than I've ever seen in my entire career. Someone in their late 60s and early 70s can have a payout that matches what we do in your Schwab account. The big difference is safety. Our Schwab portfolio is conservative by nature but there is still risk. The compromise is you may not leave as much for your heirs in comparison to your Schwab account.

I say this to tell you that, if you have an interest in extremely safe guaranteed income that doesn't run out, no matter what happens under any economic strain we may go through, we can bring you in and discuss how an annuity product might benefit your retirement planning. Or, if you get an invite to a free dinner, movie, or a friend tells you about some new awesome product, we have access to all those products. We can look at them with you in the context of your entire retirement picture, not just in the context of a stranger trying to sell you a product. Remember, not everyone is a fiduciary, and they don't have to look out for your best interest. All annuities are not created equal, so it's important to have someone looking out for you.

If you are curious about annuities in general, or you see something advertised that you want to look at, give us a call and we'll be happy to look at the whole picture with you. I would tell you that we believe these products with these high payouts will not be offered for long, because it is interest rate dependent. The lower the interest rate goes, the less of a product they will be able to offer. Now once you buy a contract, they can't change the guarantees from that point forward. I think they'll keep these rates here probably at least through September. So, you do have some time but if it's something you're interested in, I wouldn't dilly dally.

Greg Melia  
President  
Melia Advisory Group  
918-794-9290