TILIA NEWS

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Make Sure Your Cash is Working For You

As of this moment, short-term US Treasury bills are moving over 5% for the first time in over 15 years. While the 3 month Treasury bill is hovering just under 5%, investors willing to park their money for 6 months or 1 year can now earn a risk-free return above that threshold. Unlike a bank CD or money market account, US Treasury bills are not subject to State & Local income taxes, which makes them even more appealing.

With higher borrowing costs and increased economic uncertainty, we're seeing more people than ever that are sitting on excess cash balances in checking or savings accounts. As short-term interest rates rise, banks are notoriously quick to increase costs for borrowers, and slow to reward savers with higher interest payments.

If you are sitting on excess cash savings, now is the time to act. Find out what kind of

The Inflation Fight is a Marathon, Not a Sprint

One of the most common rants we hear on financial TV goes something like "Why would I buy a bond paying 5% when inflation is at 6.4%?"

For starters, the bond yields that people are quoting are forward-looking returns, while the inflation data cited is backward-looking. When considering a bond investment for the future, you should be more concerned with where expected inflation will be over the term of the bond, not what it was over the last 12 months.

Inflation is in the news on a daily basis right now. While the Federal Reserve is focused on "beating" inflation in the near term, investors would be wise to look at beating inflation as a lifelong marathon, rather than a 12 month sprint.

Like a lot of things, the cure for high prices is often high prices. If our current inflation issues prove to be persistent, the Federal Reserve is going to have to stay aggressive on interest rate policy. The combined impact of high inflation & high interest rates will inevitably result in a slowdown in the economy. That slowdown will be accompanied by lower prices, and eventually, lower interest rates.

The bond market has been pricing in some version of the scenario above for months now. Long-term US Treasury bonds are paying significantly less than short-term US Treasury bonds. High quality corporate bonds pay roughly the same for longer term bonds as they do for short-term bonds.

What does all of this mean? Historically, this backdrop suggests that now is a good time to start shifting more of your interest rate you are earning. If your bank doesn't offer an easy option to earn more than 4%, reach out to Tilia. Depending on asset levels with us, and the level of complexity, Tilia offers cash management via US Treasury bills and high-yield money market funds for a very low fee, or no fee at all.

For longer term money that might not be suitable for stocks, corporate bonds also offer opportunities to lock in higher interest rates for 2-10 years or more. History suggests that with an inverted yield curve like we have today (10 year government bonds pay less than 1 year), locking in interest rates on longer-term bonds is a good idea. Longer-term corporate bonds often perform well in times of economic turmoil, and are a great hedge against falling interest rates.

Sources:

https://www.berkshirehathaway.com/letters/2022ltr.pdf

bond allocation to longer term bonds. Up to this point, Tilia's clients with bond allocations have owned primarily 1 - 6 year bonds. We are now extending that range out to 10 years and longer in some cases. Nervous investors that are heavily invested in stocks may want to consider shifting a portion of their equity investments over to 5-10 year bonds.

Bonds are still only a defensive weapon in the fight against inflation. Investors that can stomach the volatility should continue to favor stocks, which we firmly believe to be the best offensive weapon against inflation.

Berkshire Hathaway's latest shareholder letter perfectly illustrated stocks' inflation fighting power. Berkshire's $1.3 billion dollar purchase of Coca-Cola stock in the early 90's paid $75 million in annual dividends in 1994. This was a good dividend yield at the time, of roughly 5.75%. That same amount of Coca-Cola stock now pays Berkshire $704 million a year in annual dividends… a nearly 10-fold increase in 29 years. Over the same timeframe, the value of the stock has grown from $1.3 billion to $25 billion for a nearly 20-fold increase! Putting $1.3 billion in a 30 year US Treasury bond in 1994 (~8.16%) would have generated more than $3 billion in interest over the life of the bond. Even without the stock dividends, Berkshire ended up with 7.5x more money owning the Coca-Cola stock than they would have received in total return from a Treasury bond.

This may seem like a remarkable success story, but there are many public companies that have achieved similar results by continuously growing their business in a sustainable way, and making a point to increase shareholder dividends each year.

We believe similar opportunities still exist in the market today. Investing in the stocks of companies that can steadily grow their profits over time, and consistently increase dividends, is one of the best ways to outpace inflation over the long run. The headlines will continue to be challenging, but if we can stay focused on finding and holding investments with these characteristics, we believe our clients will be rewarded handsomely over time.