KEEN ON RETIREMENT

How Do Interest Rates Affect the Economy – and Your Nest Egg?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hey, everybody. Welcome back to Keen On Retirement. I'm your Cohost, Steve Sanduski, and here with me is Bill Keen and Matt Wilson. Hey guys, how are you today?

Bill Keen: We're doing good here, Steve. We're holding the fort down here in the fourth quarter of the year at Keen Wealth, and grateful to have Matt on the podcast with us today and to talk about our topics that we've discussed, kind of some market moving issues that are going on and taking over the headlines. Heck, before that, I think Matt had some trivia that he wanted to throw at you and me and our listeners, so I thought we'd let him go right into that. What do you think?

Steve Sanduski: You know I love trivia.

Matt Wilson: Okay.

Bill Keen: Is it useless trivia or is it something we could apply?

Steve Sanduski: Emphasis on the useless.

Matt Wilson: Yes. All right. We've got today in market history. Now, does anyone want to guess after me just saying that what it could be?

Bill Keen: Market history. We're in October. We're not-

Matt Wilson: I'll give you the year. You can narrow it down, 1867.

Bill Keen: Oh, I haven't done my long-term history, typically past 1900.

Steve Sanduski: Yeah. Well, I was pretty young back in 1867, so I probably don't remember it.

Matt Wilson: Yeah. Yeah, I know.

Bill Keen: You aged well.

Matt Wilson: Here's what we've got. The US formally takes possession of Alaska after purchasing the territory from Russia for 7.2 million, which is less than two cents an acre.

Bill Keen: Oh, goodness. I guess, well, it's a little bit hard for the mind to get wrapped around what $7 million was worth in the 1800s compared to today, but didn't seem like they valued Alaska very much, did they, the Russians?

Matt Wilson: I got to say two cents an acre, that seems pretty cheap ground to me.

Steve Sanduski: Sounds like The Art of the Deal.

Matt Wilson: Yeah, right. I think Russia's wishing they didn't do that deal now.

Bill Keen: We had dome deal makers working back then too, didn't we?

Steve Sanduski: Yeah.

Bill Keen: Okay.

Steve Sanduski: Hey Matt, I got a question for you.

Matt Wilson: Yes.

Steve Sanduski: How did Russia own what we now call Alaska? Yeah, I have no idea.

Matt Wilson: I do not know that answer either.

Steve Sanduski: See, his data, his trivia was very surface level.

Matt Wilson: It was.

Steve Sanduski: Maybe we should research that and talk about it on the next podcast?

Matt Wilson: That could be some good information, yeah. I get my info from twitter, so that's 240 characters is my Max.

Steve Sanduski: Nice. Alright. Well today I think we wanna talk about interest rates, and how the level of interest rates, the direction of interest rates can affect so many things when it comes to our finances and also can affect what's going on in the financial market. So lots of things we can be chatting about there. So which one of you gentlemen would like to take a first stab at that?

Bill Keen: I think it's important to talk about the objective of our show today, Steve, in that we want to address, yes, What's in the headlines? What we're seeing up to and including even President Trump saying recently that the Federal Reserve has, "Gone crazy." And that they're out of control with interest rate increases. I think we wanna talk a little bit about what the Fed actually does control and in what rates are set, not by the Fed, but by the market.

I also wanna talk about different aspects to what rising interest rates affect. The different things that would affect our clients and listeners with rates, and then maybe some other things around business and what happens to the debt and the country's obligation on some of our debt that we have outstanding. And then finally, really what do we do about it? Because I think our episodes here, for us it's about what are we doing on the ground, in the trenches, in people's retirement plans, and their investments to be out in front of the issues, not get behind issues and to be aware of what's happening.

So I think the first thing I'd like to do is just chat a little bit about the Federal Reserve. Because a lot of people think he Fed raise rates, so they have no idea, does that affect mortgages? Why? What's the correlation? Is it the banks? And talk a little bit about how that works. Just that we only have 30 minutes or so, but got to be great.

Matt Wilson: Yeah. Essentially the Federal Reserve, they control one interest rate, and it's called the Overnight Lending Rate. That's basically the rate that the banks can borrow directly from the Federal Reserve. That's the only rate they control. So when they're raising rates, that's the only thing that is directly impacted by them doing that. Everything else is then set by the market. It's essentially supply and demand and as demand rises, interest rates go down as demand falls, interest rates rise to compensate for that lack of demand.

What we've seen short rates rise faster than longer term rates, and the spread between the short rates and the long rates, we call that the yield curve.

Bill Keen: And the short rate is literally a one day rate, an overnight lending rate basically out to the 30 year rate. Right?

Matt Wilson: That's right. Yeah. They have, basically you would think, and logically it makes sense that shorter rates are lower than longer term rates, but that's not always the case. Occasionally the yield curve inverts, which means that shorter term rates are higher than longer term rates. Doesn't happen very often, but it does happen.

Bill Keen: Right, remember we've talked about it in prior shows, about the early eighties, when folks could get, what was it? 18% on a money market?

Matt Wilson: Yes.

Bill Keen: And 15% for longer term investments, right? For-

Matt Wilson: 30 year bonds were-

Bill Keen: Were much lower than money market. So why would you tie your money up for 30 years at 15% when you could have an unencumbered one day money at 18%?

Matt Wilson: Yeah, it makes investing, and especially investing in bonds and fixed income more complex when those things happen because you're not compensated during those periods for taking on longer term bonds at that point.

Bill Keen: Well, if you could see around the corner though, you would have been compensated, right? I mean that's always the issue.

Matt Wilson: Also they don't last forever, inverted yield curves don't stay that way for long periods of time. They typically foreshadow a recession. Now there's not win yield curves invert, I mean the recession can be anywhere from one to two years out and during recessions we typically see interest rates fall and that's where that yield curve inversion starts to maybe correct itself at that point. Currently we don't have a yield curve inversion, but the spread is very small. There's many different ways to look at the spread, but the most common that I believe is the spread between the two year government treasury and the 10 year government treasury. So currently this is, as of today, October as we we're recording this on October 18th, the two year, 2.87. And the 10 year is 3.17. So we have a spread of about 30 basis points.

Bill Keen: Okay. And there we go again, talking financial lingo basis points, 30 basis points is 31 hundreds of a percent.

Matt Wilson: That's right. That's right, if 100 basis points is 1%, 30 basis points is 3,100, that's right. So, that's the spread between those, and that's not pretty much. You're getting just over a quarter percent more for locking your money up for 10 years.

Bill Keen: That's right. From practical standpoint, how does that relate into a decision that one of our clients or friends of the firm might have to be making today? I can see one would be in a bond or a CD type investment, I don't know if there's 10 years CDs, but certainly bonds. Do we decide to tie it up longterm or do we go a little bit shorter? I think a lot of folks would still say today to be patient and go shorter, wouldn't they?

Matt Wilson: Yeah. The general recommendation is to stay shorter in your bonds and your maturities. But we still wanna be diversified even on a fixed income standpoint and being diversified means owning different maturities, different durations, so that is the length of the bonds, different types of bonds, government bonds, corporate bonds, high yield bonds.

Bill Keen: Municipal bonds.

Matt Wilson: Municipal bonds, there are floating rate bonds. I mean, you wanna be diversified in that sense too, but generally it is better to be overweight on shorter term bonds in a rising rate environment, which is what we're in at this time.

Bill Keen: That's right. And so, I think that one step further, which might seem very ABC ish or just simple, but we have a lot of clients that have majority of their assets at our firm that we're managing for them, but we always recommend that folks keep an emergency reserve at their banks that they can get their hands on if they have an emergency, that they need something, they don't have to call us to get those funds if something comes along, every family has a different comfort level with how much they want to keep in their emergency accounts or their money market accounts. So it can be something 25,000, 50,000, some people wanna have over 100,000 sitting at a bank in money market accounts and maybe some very short term CDs, that they can just get their hands on immediately if necessary.

Those rates, so we're in a position right now where we're seeing the banks don't call you and say, "Hey, we noticed you have 50,000 or 100,000 or whatever the number is sitting in your money market account here that we're only paying you .1% on, rates have risen, we're going to pay you more." You know that Steve, I used to get angry too about when the mobile phones just came on like actually probably still exists, you're talking to your friend and you find out your friend is operating with the new mobile phone carrier because they gave him some unlimited data thing for 50 bucks a month. I'm with the same carrier, I'm going over data nonstop with all my kids on the lines and I'm with the same carrier and I'm paying like 500 bucks a month for it. I'm like, well Gosh, they treat their new people better than they treated their old long term clients.

So the bankers are not in ... They're not going to call you and tell you that you should be earning more on your deposits. So a takeaway from this Steve would be very practical in the trenches takeaway would be to, if you have assets at a bank or a credit union, is to call them up and say, "Hey, rates have risen substantially, we should be making more money on our deposits or we're gonna find another place to deposit."

Steve Sanduski: Yeah, I think that's a great point, in fact not too long ago, I did exactly that. I called up my bank and I said, "Hey, what are my options here? I'm not getting anything on my cash that's sitting there, what are my options?" They came back and they said, "Well, you can do this." And I said, "Well look, I did a little research online and I can get X% at this other place, how can you match it?" Well, they couldn't quite match it, but they came a lot closer than what they originally proposed. So yeah, there's some room for negotiation there, and I find that when interest rates are declining, banks are very fast to lower their interest rates. When interest rates are rising, they're very slow to raise them, what they're paying on your deposit. They make their profit by having a very healthy spread between the interest that they pay on their deposits, and the interest that they charge when they turn around and lend that money out to other people that need to borrow money.

Bill Keen: Yeah, absolutely. If you happen to have a second mortgage that has a floating rate attached to it, that Fed raises interest rates and your rates are raising immediately.

Matt Wilson: Yes.

Bill Keen: So it's interesting how they can be so, I didn't mean to turn this into a bash the bank episode today.

Steve Sanduski: Why not?

Bill Keen: But it's a very real situation and there're many, many people that don't pay attention to this stuff that won't know to call down and ask and make the inquiry. So good we're talking about it. Also on the mortgage side, so now we're talking practical application of what interest rates are doing, interest rates increases are doing to folks. Matt which interest rate, so you've talked about this curve now, basically overnight lending all the way up to 30 year government bonds and others. And that there's rates on each period of time, which one of those rates actually affects mortgages, mortgage rates? And can you narrow it down to one or is it a combination of those and how does it affect people?

Matt Wilson: Yeah, that's a great question. It's not one rate specifically that you can just follow. The nice thing though, about the Internet nowadays, you can just type in mortgage rates and you can see where they're at. But generally the mortgage rates are gonna be pegged to the 10 year treasury. That doesn't mean they're going to be the same rate as the 10 year, but at least they'll maybe follow the same direction. But I mean, an interesting thing right now is the 10 years yeah, it's 3.17, but mortgage rates I think last I saw were four and a half to 4.75-

Steve Sanduski: On a 30 year fixed.

Matt Wilson: On a 30 year fixed, which is getting people's attention in terms of how high it is.

Bill Keen: That's right. But of course, we talked about prior years and that reminds me, I was gonna share a little bit about 1994, Steve, 1994, I was relatively new in the business and we went through a period of time where the interest rate environment went from, so we're talking about this year now, rates rising, they'd come up to zero, they had been at zero on the short rate. I like that we've defined what we're talking about. So the short rate, came zero for about seven years and is now up to call it 2% or so, maybe a little over-

Matt Wilson: Two to two and a quarter, yeah.

Bill Keen: Two to two and a quarter, but the longer-term rates that we're talking about now are still in the ... They've remained relatively low. So if you were to say it again, Matt, it's two for the overnight lending, what's for the 10?

Matt Wilson: The 10 year is at 3.17 right now.

Bill Keen: Yes.

Matt Wilson: And the two-year treasury is 2.87.

Bill Keen: Okay, so rates are still historically very low?

Matt Wilson: Very low, yeah.

Bill Keen: So 1994, I'm relatively new in the business of helping people with their investing and don't have a lot of experience at that point and the two year bond opened the year at just over 4% and it ended the year just under 8%. The 20 year opened the year at about six and a half and ended just over about eight and a quarter, so we had some, really what would be considered big moves in rates, and the longer into the curb as well was the 30 year went from six and a half to over eight as well.

So those are the longer the maturity, that you're locked into one of these fixed income investments we're talking about today, the more of an effect it can have on your actual investment value. So, I think we would be remiss not to talk about how bonds are impacted by interest rates, and not to turn the episode into that now, but at least maybe for a couple minutes Matt, do you mind?

Matt Wilson: Yeah, it's something that we're going through right now in the bond market, interest rates are creeping up like this year, for example, the 10 year treasury started the year at about 2.7% and it hit three and a quarter earlier this month, but now came down a little bit at 3.17, but call it, it's up about half a percent for the year. And when interest rates increase, existing bonds go down in value. Yeah, the simple reason is because, well, if you own a bond, if you bought one in January at 2.7% now you can buy one at three and a quarter, well if you wanted to sell your bond to somebody, it's not as valuable 'cause it only pays 2.7%.

Bill Keen: Right, it's opportunity costs. The way I've always explained it is, you put $10,000 in a bond today and it pays 5% interest for one year, you will receive your 10,000 back in one year plus $500. Now, if one minute later interest rates rose and someone could go down to the Fed and buy a bond that pays 7% for that year, now anyone can go buy a bond that they can get $700 interest and their money back one year later. So if essentially your bond, if you tried to sell it two seconds later, would be worth $200 less than when you purchased it if you tried to liquidate it at that moment, because of the opportunity cost, rates have risen and someone could go buy one that pays more than yours is going to pay.

Now, if you were to stretch that out over, let's say you bought a 10 year bond or a 30 year bond, now it's not as simple because you've got all those years that you're locked into that bond that you're going to be receiving less than you could have, had you bought a bond that paid the higher yield as rates rose, so the value of your bond, it's like a teeter totter, the longer the maturity is, the bigger the effect of interest rates will have. Either way, if rates go up, existing bond go down in value temporarily. If rates go down, existing bonds go up in value, and if you hold a bond to maturity, of course you get your money back if it doesn't default, we're talking about treasuries here now in this example, but you will have volatility in the bond prices based on interest rate fluctuations in the market.

So I think it's just good that we had a little primer on it, and there's many other ways and things that we can talk about here in the remainder of the show that interest rates do have an effect on other than those, but I thought it was important to just go right into how it affects our clients practically right now.

Matt Wilson: Yeah, and even I've got just some values too, on some ETFs that track bonds. So just to put that in context, interest rates on the 10-year treasury are up about half a percent. Well, there is an ETF that tracks seven to 10-year treasuries, and that index is down about 3.3%. So, you can put that into context, okay, where market interest rates are up half a percent it's lost about three and a half percent of its value. Whereas short term rates, there's treasuries that mature in one to three years, there's an ETF that tracks that and that's up about .2% for the year.

Bill Keen: So it's actually up slightly.

Matt Wilson: And part of that's because it pays interests of about 2%. So even though it's up, it's because interest has offset the losses.

Bill Keen: The coupons have increased because rates have risen. So it's important for folks to understand this. We sit down with folks every day and we see portfolios that they bring into us from other advisors and maybe had been somewhat asleep at the wheel or on autopilot and there's a bunch of long-term bonds out there that could get really a shocking surprise and not to the good as rates continue to rise. So somebody to be on the lookout for there.

Matt Wilson: Yeah, long duration treasuries, there's an ETF that tracks those are down over 11% for the year.

Bill Keen: So you think you're in a government guaranteed bond and you are, but it's still showing that it's down 11%?

Matt Wilson: Yeah, and that's just-

Bill Keen: That's just confusing to folks.

Matt Wilson: -a small increase in rates.

Bill Keen: Right, that's right. So imagine 1994 when rates pop like they did back then. So it's interesting to see it and try to understand it now we've gone down the bond track, but you can buy corporate bonds, you have to watch out for the ratings because there's all the way from triple A rated corporate bonds all the way down to junk bonds. I pulled up some information preparing for our episode today and treasury bonds have never ever defaulted, so their default rate was 0%. Triple A rated bonds have almost a 0%, is the number I came up with, default rate for triple A, but your, what's called non-investment grade or your junk bonds on approximately 4% a year those go away, they just go to zero, is the numbers I'm seeing. So, that very much different experience, if you have a bond. You think you hear bond and you think you're secure and it goes bankrupt.

Matt Wilson: Yeah, especially when you own individual bonds versus basket of them.

Bill Keen: That's right. So, good to be conscious of these things. Steve, we've monopolized the time today. Are you taking notes over there or?

Steve Sanduski: This is wonderful, I love listening to you guys. What's interesting about bonds and interest rates is that in some respects it can be really complicated that if you really don't understand what a junk bond is, yes, it may have a really high interest rate, but as we always say, there's risk in reward that when you have the potential for a higher reward, that's usually accompanied by a chance for higher risk as well. So just the name junk bond by its very name suggests that there is some risk in there, and junk bonds, which are ways to finance corporations that have a shaky financial foundation, they have to pay a high interest rates in order for someone to lend them money and if that company goes bankrupt, then the bonds that are attached to that company have a possibility of going way down in value. So that's why your really need is, all the listeners here that when you think about the bond portion of your portfolio, it's important that you work with someone who really understands bonds and understands your particular situation and can help you discern what is most appropriate for your situation.

Matt Wilson: That's right.

Bill Keen: Yeah. We're having some volatility in the stock market too and a lot of it is blamed on a wider range of factors, but I think buying large amount of it is being suggested that the increase in interest rates is in causing some of these market gyrations. You know it's not necessarily the case that yeah, higher rates are just gonna mean that stock prices are going to be volatile going forward. It's just as we do increase rates, especially since we've been zero for seven years and then starting in 2015, the Fed has been very slow to raise rates. Now with our new Fed governor Jay Powell, he's been a little bit quicker to raise rates than the previous two Fed chairman's, but you know when rates do rise, it does have overarching impact to different segments of the market and first and foremost, consumers get impacted right off the bat. They're gonna pay more interest on loans like we just mentioned, people that are purchasing or refinancing mortgages, higher rates, if they have a variable rate that's gonna increase. If it doesn't automatically reset every month, it's gonna reset whenever their rate does reset.

Credit card debt, car loans, all of them are all basically pegged off interest rates and when those rise, you have to pay more for it and when consumers have to pay more for those things, what does that mean? It means less disposable income to spend on other items, and what impact does that have? Well, that impacts then corporate earnings essentially 'cause if they have less disposable income that's less that they're spending on other things that basically flows through the economy.

Matt Wilson: Right. So speaking of the consumer though, The consumer balance sheets are still in better shape than we've seen in a long time. So the equity ratio, the household wealth in our country, the mess that everyone got in using their homes as ATM machines and other things ten years ago, the banks just haven't done that again, the signature loans, the credit card people just are not leveraged like they were 10 years ago. So I think, don't you believe that there's room in here for rates to come up to like more normal levels and have it not impact, I mean, I'm not arguing with the fact that it is more money they're paying for their debt service but that it's not hazardous.

Bill Keen: Well, that's right. I mean, 'cause those are the arguments and then when stock prices have volatility around it, it's like, okay, well let's be a little bit more reasonable and thoughtful on this and it's okay, debt levels aren't outrageous and then this is now just gonna be the straw that breaks the camel's back that this increase in rates because they aren't, balance sheets are extremely healthy on the consumer side and on the corporate side.

Matt Wilson: Speaking of corporate, how does this affect companies and corporations?

Bill Keen: Yeah, I mean companies, if they have floating rates or if they have bond issuances that they're doing, they're gonna pay more in interest for those, also for any overnight lending that they might be doing, real short term lending, that's just gonna cost them more as well. So, debt that they have that is short term debt or variable debt's gonna cost them more, but I think many companies have been relatively good about locking in longer term debt.

Bill Keen: Exactly.

Matt Wilson: Over the last 10 years about when rates are low, let's issue a 30 year bond and let's lock it in even if we don't need the money because the cost of capital is so low at those times.

Bill Keen: So see what I like you just said there as we're explaining bonds earlier in the episode, we were talking about bonds earlier on the investor side of it, and now you're speaking of bonds on the actual issuer of the bond side of it. So there's the two parties involved, the company needs money to grow and expand and to operate their business and they have two choices, sell stock in their company to raise money or issue debt or received loans from people. And that's all a bond is, an investor decides to make a loan to an entity. That what Matt was just describing there. So, a simplified way of explaining it, identifying both parties in that transaction.

Matt Wilson: Yeah. I mean, so, during rising rates it does, it cost consumers more, cost companies more, and then the other entity that has to pay more is the Federal Government.

Bill Keen: Exactly, and that's where I wanted you to go.

Matt Wilson: They have debt too and as these government treasuries, those are all the rates that we've been quoting throughout our show today, those are all the interest rates that the government pays on the debt that they have. And so as these interest rates rise, more and more of the budget now has to go towards debt service. That means one of two things have to happen, either they cut spending somewhere else to keep everything in budget. Unlikely.

So now what they do is they have a deficit which causes them to issue more debt, which causes more interest service on that, so debt service on that. So it can be a little bit of a spiral and I think occasionally investors and market prognosticators, gonna take this little event of rates rising and start to project out all of these negative scenarios years down the road and definitely could be possibilities, but there are so many different factors that are gonna change how these things all play out over time.

Bill Keen: So there actually is an incentive for the government to keep rates in line. I mean that would be of interest to them to keep the debt payments they have to make or the interest payments so to speak in line. So through open market operations and other things that are probably beyond the scope of this particular podcast. Beside interest rate adjustments, they have ways of keeping the longer term rates actually kind of roundabout ways to keeping those in check, don't they?

Matt Wilson: That's right. That could be maybe even, that's part of the reason why the rates are where they're today. A 30 year government bond is 3.3%, a 10 years 3.1, and a two years, two point nine nearly. So, they can buy bonds in the open market and keep rates lower on the longer end even though they're coming up on the shorter end.

Bill Keen: As we have progressed through the ABCs, and the simple nature of how these rate rises and rate increases can affect people. Why don't we start to close our show with some more complexity that probably no one necessarily wants to hear, but talk to us about the dollar rising against foreign currencies and I know we can get into weeds on some of this Steve. We pride ourselves on the podcast, we get lots of feedback that the things we talk about are practical application of items that people can understand, so, we're always hesitant to go into things like foreign currencies and interest rate hedges and things like that.

I mean we are on the topic and it seems like it might make sense if we're talking, now we've got tariffs, we've got exports and imports and even in economics class early on, it was like, okay, wait a second, the dollar is strong and that's bad. Why is it bad the dollar is strong? Well, it hurts exports, but what about the currency? And so again, I mean we won't spend too much time on it, but let's do that.

Finally I was going to mention we are at a point in time here folks where when we get good news about a financial number, a jobs number, or a productivity number in our GDP, we get good financial news in the morning and the market goes down. And you say, "Wait a second, good news just got announced, why is the market going down?" Well, because now if good news happens then the Fed thinks things are heating up and they're going to raise rates quicker. So there are times in the economy where good is announced about the economy and the market goes the other direction. That's one reason we say do not be making investment decisions based on short term headlines because what you think should be happening, the opposite is happening. And really the day to day movement in the market is all noise, it really is for someone dealing with their long term financial health of them and their families, Matt foreign currencies.

Matt Wilson: Yeah. Here's what, essentially when rates rise, interest rates on currencies are impacted as well. So when interest rates are increasing here in the US, the US dollar essentially pays more interest, so it can attract capital from foreign investors, because now they can earn just more interest by owning US dollars, so they exchange whatever currency they're in and they buy US dollars and they just keep it in money market and make the interest rate spread.

When that comes in, that increases the value of the dollar 'cause now we're seeing demand for the dollar rise. When that happens though, that can impact our exporters because our goods and services now are more expensive to sell to overseas and other foreign entities. So there's always a give and take, as Bill mentioned on rising currencies because in one vein we like them because we feel like, well, strong currency is good, means our economy is doing well and things like that. But then in other factors, it does impact other businesses and other scenarios that aren't as favorable.

Steve Sanduski: Here's a good side to having a strong dollar. If you love to travel internationally, your dollar goes much farther. So if you're traveling and using US dollars overseas and the dollar is strong, that means it's gonna take, when you do the translation, it's gonna take less of the foreign currency or you're gonna get more bang for your buck because you're dollar is strong. So it's really good when our dollar is strong, it is good for you to travel overseas and convert to a weaker currency.

Matt Wilson: Yeah, and it's always funny, I mean you hear especially on the fringes of some of these cycles where currencies are really strong or very weak that when you travel, either they don't want it, they don't want dollars because they just think they're worthless or that's all they ... They'll take your dollars because they know you're not probably paying attention to the spread and they can convert them and make more money off of it. So.

Bill Keen: Right. We went on a Disney cruise with the whole family. I guess it was two summers ago, we were in Russia, we were in Germany, we were in Amsterdam, we were in London, it was amazing. I think we had nine countries and my son, he's an Engineering student at Rolla. He had the conversion calculators out, so we didn't get taken to it.

Steve Sanduski: Yeah. Oh yeah.

Bill Keen: Oh goodness.

Matt Wilson: Rising interest rates they're a good thing, because what that is signaling ultimately what rising rates are signaling is that the economy is healthy, it is strong, we are expecting inflation to pick up, which is a good thing. I mean, we like inflation from an economic standpoint. What we don't like is out of control inflammation. We wanna avoid that, and that's the purpose of raising rates and doing it in a steady fashion as the Fed does, is because it wants to just maintain a certain level of inflation, a certain level of job growth and what have you within the economy. So when they're raising rates, they're signaling that things are performing well.

Steve Sanduski: Yeah, I'm glad you mentioned inflation because I think that is a key part of this whole interest rate situation and I think the Federal Reserve typically tries to target, well they may not say they target, but about a 2% annual inflation rate and so if the economy is doing really well and things are growing fast, that typically means resources are scarce, workers are scarce, so employers have to raise wages to attract people and then that leads to inflation. So by raising interest rates, the Fed is basically saying, "Hey, we wanna get ahead of the curve here, we don't want inflation to rise to 3% or 4% or 5%, so we're gonna raise interest rates a little bit to try and slow the economy a bit so that we can keep inflation in the neighborhood of 2% per year.

Bill Keen: Mm-hmm, Mm-hmm (affirmative). It is. Yeah. When they raise rates, I mean essentially what they're saying is we want you to keep some of this money now in the bank and not go spend it, not go invest it.

Matt Wilson: Mm-hmm (affirmative). That's right. It's interesting how all these things are integrated and how one thing has a cascading effect on many other things, it brought to mind, you talked about interest rates or inflation. It was just announced that the social security cost of living adjustments, Steve, I don't know if you saw this, but folks are actually going to get a 2.8% increase in their social security, this year, this coming year.

Steve Sanduski: Yeah. Our economy is a highly complex, inner related, globally connected machine. Sometimes it's hard to see how if we do this tweak over here, how that might affect this thing over there, but somehow in the end it all seems to work out.

Bill Keen: Yes it does. And I think I might just close by saying one, thank you both for your insights today and two, imagine someone's worked their entire life and unless they have a portfolio of real estate or they still have maybe a private business that's generating income for them that they decided not to sell, maybe keep in the family or maybe someone has a pension that just pays them a monthly payment.

Majority of folks we work with have got their whole future, their life savings invested in these capital markets, in equity securities, stock investments, diversified in bond investments as well. And so to just, you think about the gravity of, hey, our whole life and our family's wellbeing and support is, we've got to navigate all these things that we just talked about and we cannot afford a mistake at this point. We don't have 30 or 40 years to make this back if we do something wrong and we compromise ourselves.

So again, Steve, that's why we do these things. We're committed to it, we've been at it now for I think we're three years in on the podcast. I think it's just really important to bring episodes like this and many others that we've done to folks so they can say, "How does all this affect me, and sift through some of the headlines and get to the bottom of what should we do next." And really what we should do next is, always have a plan in place. I used to say written now they're mostly on computers, but a plan that has details, that has dates, that has amounts, that has spending needs, that have all the decisions laid out and mapped out so that when things come up, whatever it is, a personal situation, an economic situation, a political situation, anything that is presented to you as an investor, you have something that you've thought through and been intentional about, that you and your advisor can bounce the decisions off of and you're not making these decisions knee jerk or in a vacuum. It's so important.

So, again, guys, thanks for your time today on this episode and I hope that we've been successful in bringing a little bit of clarity to some of the things that we talked about today.

Steve Sanduski: Excellent. Well, thank you, Bill. Thank you, Matt. We'll look forward to the next episode of Keen On Retirement.

Bill Keen: Thanks Steve.

Matt Wilson: Thank you.