10,000 ft. Overview, A guide to investing

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When it comes to investing, understanding the differences between owning an asset outright versus loaning your money to someone else in exchange for interest is fundamental to building a diversified and effective portfolio. These two approaches—investing in assets you own and assets you loan—carry distinct characteristics, benefits, and risks that cater to different financial goals and risk tolerances.

Own vs Loan

Investing in assets you own typically involves purchasing securities or physical goods that have intrinsic or marketable value. Common examples include stocks, real estate, and commodities. When you buy these assets, you become the direct owner, giving you the potential for capital appreciation and, in some cases, additional income streams such as dividends or rental payments. For instance, owning shares in a company allows you to benefit from its growth and profitability, while holding real estate can offer long-term value appreciation and passive rental income. However, these investments also expose you to market volatility. Prices can fluctuate widely, and there is always the risk that the asset could lose value. Despite this, owning assets helps investors seeking long-term growth, as their value often appreciates over time.

On the other hand, investing in assets you loan refers to lending money in exchange for fixed income payments. This category includes many different types of fixed income investments commonly referred to as bonds. A few examples are, Government bonds, Municipal bonds, Corporate bonds, High Yield bonds, Private Debt, and certificates of deposit (CDs). When you invest in a bond, you are essentially loaning money to a corporation or government in return for periodic interest payments and the promise of your principal being repaid at maturity. Loan-based investments are generally considered safer than owning assets, as they provide a predictable income stream and prioritize creditors in the event of financial distress. However, they also offer lower potential returns and are susceptible to risks such as inflation and interest rate fluctuations, which can erode the real value of your earnings.

One key difference between the two approaches is the balance between risk and reward. Owning assets tends to involve greater risk due to market unpredictability, but it also provides the potential for higher returns. Conversely, loaning assets often appeals to more risk-averse investors seeking stability and a reliable income. Another distinction lies in the role each plays in an investment portfolio. Ownership-based investments are typically used to build wealth over the long term, while loan-based assets can offer diversification and act as a hedge against more volatile investments.

Ultimately, deciding between investing in assets you own and those you loan depends on your financial goals, risk tolerance, and investment timeline. For most investors, a balanced approach combining both strategies can provide a mix of growth potential and income stability, ensuring resilience in the face of changing market conditions.

One crucial factor to consider when investing in fixed income is the relationship between interest rates and the value of fixed income investments. When interest rates rise, the value of existing fixed income investments, such as bonds, typically falls. This is because new bonds are issued at higher interest rates, making older bonds with lower interest payments less attractive. For example, if you own a bond paying a 4% annual yield and new bonds are issued at 5%, investors will prefer the higher-yielding bonds, causing the price of your 4% bond to drop if you decide to sell it before maturity.

Conversely, when interest rates fall, the value of existing fixed income investments tends to rise. In this scenario, newer bonds are issued with lower yields, making older bonds with higher interest payments more appealing. As a result, if you hold a bond with a 5% yield while new bonds are offering 4%, your bond becomes more valuable on the market. This dynamic can provide an opportunity to sell your fixed income investments at a premium if needed.

It's also important to note that changes in interest rates can impact the duration and sensitivity of fixed income investments. Long-term bonds are generally more affected by interest rate changes than short-term bonds, as their fixed interest payments are locked in for a longer period. This means that if you hold longer-dated bonds, their market value may fluctuate more significantly with interest rate movements. Understanding this relationship is essential when planning your investment strategy and managing risks within your fixed income portfolio.

Benefits of Owning

Common ownership investments used in a portfolio are stocks. The stock market typically reacts differently in a rising economy compared to a falling economy. In a rising economy, corporate profits generally increase as businesses benefit from higher consumer spending, investment, and overall economic growth. This positive environment often drives stock prices higher, as investors are optimistic about future earnings and are willing to pay a premium for equities. Sectors such as technology, consumer discretionary, and industrials often thrive in these conditions. However, a rising economy can also lead to inflationary pressures, prompting the Federal Reserve to raise interest rates to prevent the economy from overheating. Higher interest rates can eventually dampen stock market growth as borrowing costs increase for businesses and consumers.

Conversely, in a falling economy or recession, the stock market often experiences declines as corporate profits shrink and investor confidence wanes. Consumers tend to cut back on spending, and businesses may reduce investments or lay off workers. Defensive sectors like utilities, healthcare, and consumer staples typically perform better during economic downturns, as their products and services remain in demand regardless of economic conditions. To counteract a slowing economy, the Federal Reserve typically lowers interest rates, making borrowing cheaper for businesses and consumers. This monetary policy aims to stimulate economic activity by encouraging spending and investment. While lower interest rates can provide support to the stock market, the overall performance during a recession often depends on the severity and duration of the economic downturn.

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Understanding how the stock market reacts to different economic conditions, and the role of interest rate policy is essential for making informed investment decisions. By recognizing these patterns, you can better navigate market cycles and adjust your portfolio to align with current and anticipated economic trends.

The investing nirvana is being able to combine these two investment strategies and be able to effectively buy low and sell high. But how does one do that consistently? At Tate Capital Group we have developed a proprietary method to do just that. When the economy is rising and interest rates follow suit, we take profits on our ownership investment and sell at high points. We do this systematically in order to take the emotion of investing out of the equation. We take those profits and buy loan investments as they have typically fallen in price due to rising rates. This generally provides us with a better buying opportunity. We also know eventually the opposite will occur and that is a declining market or recession. When this happens the fed typically lowers rates to stimulate the economy. When they do this, it causes the value of our bonds we already own to rise. This provides us with the opportunity to sell some of our loan or income investments at higher points and take those profits to buy ownership investments such as stocks. We follow these patterns by signals we get from the overall economy. This method has proven to be very effective for us and it allows us to remove one of the greatest variables to investing, an investors own emotional bias. This method helps us consistently buy low and sell high.

For more information on Tate Capitals approach to investing please contact us via phone or email. We will be happy to sit down for a one-on-one meeting to discuss how our approach may be right for you.

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