

Where to Invest Now? It's Tricky

Written by Rob Copeland
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Where should you invest your money? Right now, that's a far from a simple question.

If you have new cash to put to work, or if you're ready to take some profits on existing investments and reallocate the proceeds, there's no obvious place to reinvest that money.

High-quality bonds are unappealing because of their low yields--10-year Treasuries are yielding just 1.3%. And the possibility of rising interest rates makes them potentially dangerous. When interest rates rise, bond prices fall. Then there's the threat of prolonged inflation, which eats into the value of bonds' interest payments. Inflation is running at a 5.4% annual rate, although it could cool down as supply chain bottlenecks related to reopening subside.

Junk bonds, issued by lower-quality companies, usually compensate for their riskiness by paying higher yields. But right now, junk bond yields are close to their pandemic lows. In other words, we're not being paid enough to take on their additional risk. That risk, of course is magnified by the potential for rising interest rates. The Federal Reserve is currently debating when to roll back its ultra-low interest rate policy.

In the past, we've successfully invested in mortgage-backed securities. But despite generating good cash flows, MBS are very expensive right now. At this time last year, MBS funds could actually be bought at a 20% discount to their intrinsic value; now they're trading at a 5% premium.

Meanwhile, stocks are expensive. Those in the S&P 500 index are trading at about 35 times their earnings, compared with their historical average of around 16. Growth stocks are even more expensive: Invesco's large-cap growth-stock ETF QQQ is trading at around 41 times earnings. It's not clear when stocks' earnings will catch up to their valuations. Until they do, stocks are at risk of being more volatile.

In other words, picking investments is unusually tricky right now. Against this backdrop, I see dividend-paying stocks as one of the best places to be. They're not especially expensive compared with the broad market (Vanguard's Dividend Appreciation Fund currently trades at 31 times earnings), so they have room to rise. Even if they don't appreciate much in the coming

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months, dividend stocks pay you to wait.

In looking for sectors that I consider most likely to see price appreciation, oil companies stand out, as do banks. Rising oil prices--oil has jumped from \$40 a barrel last year to \$64 recently--could give earning and consequently stock prices, a lift. And banks have traditionally made a lot more money when interest rates rise.

It's also important to be mindful right now of the percentage of cash within your overall portfolio. Inflation will eat away at its value, and if the market rises quickly you won't capture as much of the gains. Please don't hesitate to contact us if you'd like to talk about your investments.