

Fed Rate Cuts – Hedging Bets

09.18.2024

This is about a 3 minute read.

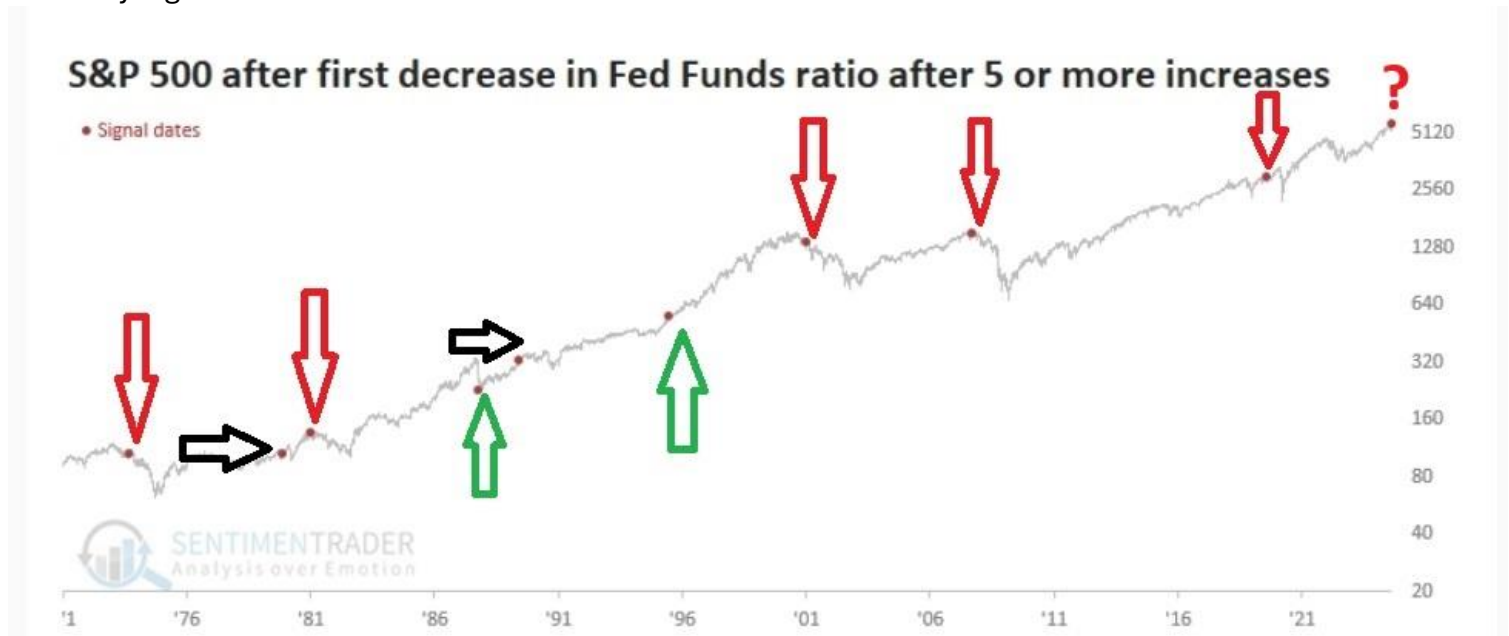
- What the Fed did today. Should I care?
- History of Fed rate cutting cycles
- Possible solution to hedge bets

Today (09.18.2024) the Fed cut the short term rate by 0.50%. The initial market reaction was stocks up and bonds down (both finished the day down). Assuming this is the start of a new rate cut cycle, here is the history of the last 9 Fed rate cutting cycles going back to the early 70's*:

- 4 ended in serious market selloffs/crashes of over **-23%** within 12 months with further losses over the next 6-12 months for 3 of the cycles.
- 1 was down **-16%** within 12 months and continued lower for another 12 months.
- 2 had significant positive runs with 1 immediately after the 1987 market crash and the other after a period of consolidation, so completely different scenarios than today.
- 2 were up and down for 3-6 months, then had nice gains at the end of 12 months.

*Source: [Sentiment Trader](#) – 09.17.2024

The scenarios most like ours today all ended in big market drops, other than 1995. So, it appears risks are relatively high in this environment.



If your plane had a 44% chance of crashing, would you at least put on a parachute? There's a way to continue to invest in the indexes while "hedging your bets." Here's what I have been doing with much of my IRA money and for many millions of client assets. Many of you have already invested in what I'm going to write about. Please pass this on to others who haven't.

Below is a screenshot of a client's renewal statement for a "structured outcome contract" started in Oct 2022.

- Orange rectangles show the index chosen and the length of the new term
- Blue rectangles show the amount of protection from loss that portion of the account has during the term
- Green rectangles show the gains (through 09.10.2024) for the portions of the account that are maturing on 10.08.2024 since that term begin (either 10.08.2023 or 10.08.2022).

Segment Options available as of 10/8/2024	Protection Level	Segment Value as of 9/10/2024	Projected Total Rate of Return (as of 9/10/2024) ¹	Rates	Current Rate	Renewal Rate
Buffer Segment Options²						
1-Yr Point-To-Point Buffer (SPX)(10/8/2024 - 10/8/2025)	20.00%	\$44,925.87	15.00%	Cap Rate Participation Rate	15.00% 100.00%	16.00% 100.00%
1-Yr Point-To-Point Buffer (SPX)(10/8/2024 - 10/8/2025)	10.00%	\$0.00	21.00%	Cap Rate Participation Rate	21.00% 100.00%	29.00% 100.00%
1-Yr Point-To-Point Buffer (NDX)(10/8/2024 - 10/8/2025)	10.00%	\$15,443.26	24.00%	Cap Rate Participation Rate	24.00% 100.00%	29.00% 100.00%
1-Yr Point-To-Point Buffer (BXIIMSTN)(10/8/2024 - 10/8/2025)	10.00%	\$0.00	15.00%	Cap Rate Participation Rate	15.00% 100.00%	17.00% 100.00%
1-Yr Point-To-Point Buffer (RTY)(10/8/2024 - 10/8/2025)	10.00%	\$0.00	20.16%	Cap Rate Participation Rate	28.00% 100.00%	42.00% 100.00%
1-Yr Point-To-Point Buffer (MXEA)(10/8/2024 - 10/8/2025)	10.00%	\$15,443.26	20.74%	Participation Rate	112.00%	117.00%
2-Yr Point-To-Point Buffer (SPX)(10/8/2024 - 10/8/2026)	20.00%	\$100,217.39	50.99%	Cap Rate Participation Rate	65.00% 100.00%	N/A 108.00%
2-Yr Point-To-Point Buffer (SPX)(10/8/2023 - 10/8/2025) *	20.00%	\$66,091.95	N/A	Participation Rate	100.00%	N/A
2-Yr Point-To-Point Buffer (SPX)(10/8/2024 - 10/8/2026)	10.00%	\$0.00	58.64%	Participation Rate	115.00%	121.00%
2-Yr Point-To-Point Buffer (NDX)(10/8/2024 - 10/8/2026)	10.00%	\$0.00	70.00%	Cap Rate Participation Rate	70.00% 100.00%	N/A 108.00%
2-Yr Point-To-Point Buffer (BXIIMSTN)(10/8/2024 - 10/8/2026)	10.00%	\$0.00	49.86%	Participation Rate	100.00%	107.00%
2-Yr Point-To-Point Buffer (RTY)(10/8/2024 - 10/8/2026)	10.00%	\$0.00	24.38%	Participation Rate	105.00%	116.00%
2-Yr Point-To-Point Buffer (MXEA)(10/8/2024 - 10/8/2026)	10.00%	\$35,370.87	51.37%	Participation Rate	130.00%	150.00%
2-Yr Point-To-Point Buffer (MXEA)(10/8/2023 - 10/8/2025) *	10.00%	\$23,326.57	N/A	Participation Rate	140.00%	N/A
Fixed Segment Options						
Fixed (10/8/2024 - 10/8/2025)	N/A	\$0.00	3.00%	Interest Rate	3.00%	3.00%

The returns the past couple of years for structured outcome contracts have been significant while investors were protected from a 10% or 20% loss each term. I didn't "manage" the account illustrated. We allocated to various indexes and they happened to skyrocket. Of course, I can't predict that stock markets will increase over the next 1 and 2 year periods like they have done since Oct 2022. I doubt they will. You may be bullish. You may be bearish. With these types of accounts, both viewpoints may be accommodated now and in the future. Maybe it's time to grab that parachute?

For those who hold bonds and/or cash in their accounts to mitigate risk, there are "no market risk" variations of these contracts that are a great alternative. ^^

¹Structured Outcome Contracts (aka "RILAs – registered index-linked annuities) may lose principle if markets decline more than the buffer chosen. They are not suitable for all investors. Please read the prospectus and related disclosures. There is no charge to invest and a 0.95% yearly internal fee. While terms may be 1, 2, or 6 years, invested amounts must remain with the company for 6 years or an early withdrawal penalty is assessed. 10% yearly withdrawals are allowed along with waivers of charges for terminal illness, nursing home situations, and passing. Please read the disclosures for details. Please go to my website for more details - <https://tacticaladvisoryservices.com/buffered-securities>.

²"FIAs" (Fixed index Annuities) are similar to RILAs but with no risk of loss and (usually) no internal fee. Potential gains are often less than RILAs. More information is here - <https://tacticaladvisoryservices.com/structured-outcomes>

Let me or Deena know if you want more information.

Enjoy,
Thomas B. Paine

Paine Financial Services

www.painefinancialservices.com

Centaurus Financial Inc.

6627-A Bay Laurel Pl

Avila Beach, CA 93424

805-473-6679

805-258-5476 (fax)

Supervisory Branch Office: 1186 E. Grand Ave., Arroyo Grande CA 93420; 805-473-6670 California License #0703952

Advisory Services and Securities offered through Centaurus Financial, Inc., member FINRA and SIPC, a registered broker/dealer and registered investment advisor. Paine Financial Services and Centaurus Financial Inc. are not affiliated. This is not an offer to sell securities, which may be done only after proper delivery of a prospectus and client suitability is reviewed and determined. Information relating to securities is intended for use by individuals residing in CA, OR, TX, CT, AK, and FL.

This e-mail and attachment(s) may contain information that is privileged, confidential, and/or exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination, distribution, or copy of this message is strictly prohibited. If received in error, please notify the sender immediately and delete/destroy the message and any copies thereof.

This e-mail was sent in accordance with US Code 47.5.11, section 227. We respect your privacy and pledge not to abuse this privilege. To stop future mailings, please respond by typing "remove" in your reply. The opinions expressed are not intended to be a recommendation or investment advice and do not constitute a solicitation to buy, sell, or hold a security or investment strategy. The views and opinions are for information and educational purpose only.