

Ask Steve

The following questions were submitted by clients to asksteve@greatdiamondpartners.com. Keep them coming!

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Q: Where does one invest for income?

A: The answer has changed over the last few weeks. The 10-Year U.S. Treasury yield has dropped from 1.6% in mid-February to 0.8% today. While that isn't terribly attractive, not all bonds behave the same. Municipal bond yields are actually a bit higher, rising from 2.2% to 2.4%. The yield on the S&P 500 has increased from 1.7% to 2.4%. More interestingly, for one group of companies that have raised their dividends annually, their yield has increased from 1.6% to 2.2%. Finally, there are plenty of stocks that yield over 4% - however their dividend growth rates are likely lower and some may be forced to cut their dividends. The answer to your question comes from asking a few other questions: **1)** Can you emotionally handle the ups and downs of stocks if you only need the dividends? **2)** Will you need access to the principal? **3)** What is your tax situation? **4)** What other investments do you own? In the end, the answer is like a mix of these.

Q: What does cheap mean?

A: There are three ways to answer this. First, is the price less than before? If you can buy something for less today than it cost yesterday, that might be good. Second, how does the price relate to the value you are getting? This starts to get more complicated because it involves looking into the future- which can be uncertain. Third, how does the price/value relationship compare to another investment? This is probably the most difficult assessment because there are so many assumptions involved. You might consider stocks (which are down) to be cheap relative to U.S. Treasuries (which are up) today, however the real answer can only be found in the future looking in the rear view mirror - a luxury we don't have.



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Q: How long is this going to last?

A: That's the \$64,000 question! It's also forces me to make a guess in a very uncertain world. There is a CHANCE the worst of the stock market is behind us. The virus likely has at least a few more weeks of getting worse. The economy is going to post horrible numbers for several months.

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