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the FINANCIAL INSIGHTS

U P D A T E

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Managing Bond Risks

All investments are subject to risk, although the types of risk can vary. While you can't totally eliminate those risks, you can develop strategies to minimize them. For bonds, consider these strategies:

Interest rate risk — Interest rates and bond prices move in opposite directions. A bond's price will rise when interest rates fall and decrease when interest rates rise. This occurs because the existing bond's price must change to provide the same return as an equivalent, newly-issued bond paying prevailing interest rates. The longer the bond's maturity, the greater the impact of interest rate changes. Also, the effects of interest rate changes tend to be less significant for bonds with higher-coupon interest rates.

To reduce this risk, consider holding the bond to maturity. This eliminates the impact of interest rate changes, since the total principal value will be paid at maturity. Thus, selecting a maturity date that coincides with your cash needs will help reduce interest rate risk. However, you may still receive an interest income stream that is lower than current rates. Selecting shorter maturities or using a bond ladder can also help with this risk.

Reinvestment risk — You typically know what interest income you will receive from a bond, but you must then take the periodic income and reinvest it, usually at varying interest rates. Your principal may also mature at a time when interest rates are low.

Staggering maturities over a period of time (laddering) can lessen reinvestment risk. Since the bonds in your ladder mature every year or so, you reinvest principal over a period of time instead of in one lump sum. You may also want to consider zero-

Continued on page 2

Consider Maturity Dates

Before deciding on a bond maturity date, review how that date affects investment risk and your ability to pursue your investment goals. Typically, yield increases as the maturity date lengthens. If you purchase a long-term bond knowing you'll need to sell before the maturity date, interest rate changes can significantly affect the bond's market value. Two fundamental concepts about bond investing apply:

✔ **Interest rates and bond prices move in opposite directions.** A bond's price rises when interest rates fall and declines when interest rates rise. The existing bond's price must change to provide the same yield to maturity as an equivalent, newly-issued bond with prevailing interest rates. You can eliminate the effects of interest rate changes by holding the bond to maturity, when you will receive the full principal amount.

✔ **Bonds with longer maturities are more significantly affected by interest rate changes.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, the bond's price must change more to compensate for the interest rate change.

Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you need your principal. In many cases, you may not know exactly when that will be, but you should at least know whether you are investing for the short, intermediate, or long term. Please call if you'd like to discuss bond maturities in more detail. ✔✔✔

Managing Bond Risks

continued from page 1

coupon bonds, which sell at a deep discount from par value. The bond's interest rate is locked in at purchase, but no interest is paid until maturity. Thus, you don't have to deal with reinvestment risk for interest payments, since you don't receive the interest until your principal matures.

Inflation risk — Since bonds typically pay a fixed amount of interest and principal, the purchasing power of those payments decreases due to inflation, which is a major risk for intermediate- and long-term bonds.

Investing in short-term bonds reduces inflation's impact, since you are frequently reinvesting at prevailing interest rates. You can also consider inflation-indexed securities issued by the U.S. government, which pay a real rate of return above inflation.

Default and credit risk — Default risk is the risk the issuer will not be able to pay the interest and/or principal. Credit risk is the risk the issuer's credit rating will be downgraded, which would probably decrease the bond's value.

To minimize this risk, consider purchasing U.S. government bonds or bonds with investment-grade ratings. Continue to monitor the credit ratings of any bonds purchased.

Call risk — Call provisions allow bond issuers to replace high-coupon bonds with lower-coupon bonds when interest rates decrease. Since call provisions are generally only exercised when interest rates decrease, you are forced to reinvest principal at lower interest rates.

U.S. government securities do not have call provisions, while most corporate and municipal bonds do. Review the call provisions before purchase to select those most favorable to you.

Keep in mind that the assumption of risk is generally rewarded with higher return potential. One of the safest bond strategies is to only purchase three-month Treasury bills, but this typically results in the lowest return. To increase your return, decide which risks you are comfortable assuming and then implement a corresponding bond strategy. Please call if you'd like help with your bond investing strategy. ✔✔✔

4 Reasons for Goal-Focused Investing

The fact is, investing isn't just about making your money work for you. It's about making your money work for you for a particular purpose. In other words, you need a goal. Here are four specific reasons why a goal-focused approach to investing is important.

Because It Puts You in Control

When you first start investing, it's easy to get overwhelmed. You may feel like you have little control over what happens to your money. No matter how careful you are, you could lose what you invest. But if you take a goal-focused approach to investing, you're not just watching the value of your portfolio rise and fall based on the whims of the market. You are making specific decisions that you designed to help you reach specific goals.

Because It Will Be Easier to Save

Saving money just to save money is no fun for most people. Having concrete goals can turn saving from an abstract concept into a concrete step towards a certain aim. Studies have shown that the better you are at setting goals, the more you're likely to save.

Because You'll Be Less Focused on How Others Are Doing

A little competition is healthy, but when it comes to investing, it can get risky. If your father-in-law is bragging about the great return he got on his investments, it can be tempting to drop your plan and copy his moves. But if you're investing toward a goal with a clear plan, you'll be able to congratulate your relative on his success while staying focused on your needs.

Because It Will Help You Weather the Ups and Downs of the Market

The market goes up and the market goes down. Just like a roller coaster, these peaks and dips can make your stomach do flip flops, especially when your life savings is on the line. But having a goal-focused approach can help you cope with those ups and downs. If you know you won't need your money for another 30 years, you can handle some volatility today. But if you're going to need your money in the next couple of years, you can select less volatile investments so the day-to-day movements of the market won't stress you out.

If you need help setting your own investing goals, please call. ✔✔✔

7 Ways to Pay Less for College

With the cost of college steadily rising, students and their parents are looking for ways to ease the financial burden. Fortunately, there are ways to reduce college expenses for your child, even if a free-ride scholarship isn't a possibility.

1. Take college-credit courses in high school.

Pack your child's high school schedule with advanced placement (AP) classes so they can start earning college credits early. Students who do well on AP exams may be able to skip general education requirements in college. Some high schools also offer dual-credit courses, allowing students to earn college credit for high school classes or to enroll in classes at a local college or university during high school.

2. Apply for aid.

Always apply for financial aid, even if you think you might not qualify. Even if you earn a lot of money, your child may still be granted some assistance, depending on your family's circumstances. And remember that some assets aren't counted when determining federal student aid.

3. Start at a community college.

Tuition at two-year community colleges is typically more affordable than at four-year private and public universities. Many students can save money by beginning their college education at these schools and then transferring to a four-year institution to complete their degree.

Community college may also be a good option for students who are not sure whether college is right for them, or those who are not sure what they want to study. Attending a two-year school offers a more affordable way to explore different fields and can ease the transition from high school to college. However, if your child is considering this option, make sure you understand if and how their credits will transfer.

4. Stay close to home.

Heading halfway across the country for college will probably be expensive. If your child stays closer to home for school, they'll spend less on travel and may even be able to live with you, cutting costs even further. Plus, tuition at in-state public universities and community colleges is typically less expensive than their out-of-state counterparts.

5. Get a job.

College is hard work, but many students benefit from working at least a few hours a week. Consider having your child rely on their part-time job for their spending money. Students may also want to seek out jobs at companies that help pay an employee's college costs.

6. Look for scholarships.

Scholarships aren't just for top athletes and those with perfect SAT scores. There's aid money out there for all kinds of students, including those belonging to certain ethnic or religious groups, pursuing certain majors, or attending certain schools. Check with local groups, organizations your child participates in, and even your own employer to see if there are any scholarships offered.

7. Choose a school that charges no or minimal tuition.

Yes, there are colleges that charge students nothing, or virtually nothing, to attend. While admission to these schools is competitive and they won't be an option for all students, they are worth exploring, especially if you feel college is financially out of reach.

The U.S. federal service academies, including West Point and the U.S. Air Force Academy, charge no tuition in exchange for a service commitment after graduation. A number of work colleges allow students to attend for free or for a nominal cost in exchange for working on campus. However, keep in mind that despite free or discounted tuition, students may still be responsible for room, board, and other fees.

Not sure how to fit the cost of a college education into your budget? Please call to discuss how college planning fits into your broader financial plan. ✔✔✔

Which Goal Is More Important?

With limited resources for saving, which is the most important financial goal — saving for your retirement or saving for your child's college education? While many parents want to pay the entire cost of their children's college educations, the reality is that there are a variety of ways to save for that education. Unfortunately, there aren't similar options for your retirement. You may want to maximize your retirement savings, realizing there are ways to use those savings to help with education costs. How can that strategy help?

✔ **Your retirement savings won't be considered in financial aid formulas.** The federal financial aid formula does not consider retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), when calculating your expected family contribution. For other assets, the formula assumes that 5.6% of the parents' assets and 20% of the student's assets will be used annually for college costs.

✔ **You can still use these retirement assets to help pay for college costs.** Money in IRAs can be withdrawn to pay higher-education expenses before age 59½ without incurring the 10% federal tax penalty, although income taxes will be assessed on the taxable portion of the distribution. If the money is withdrawn from a Roth IRA, your contributions can be withdrawn at any time without penalty or taxes, while earnings can be withdrawn before age 59½ by paying income taxes but not the 10% tax penalty. With 401(k) plans, you typically can't withdraw the money before retirement age unless it is for a hardship withdrawal, but you can borrow funds if permitted by the plan. ✔✔✔

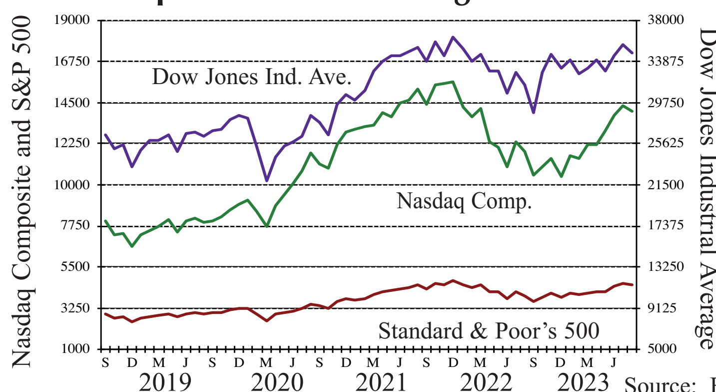
Market Data

	Month End			% Change	
Stocks:	Aug 23	Jul 23	Jun 23	YTD	12-Mon.
Dow Jones Ind.	34721.91	35559.53	34407.60	4.8%	10.2%
S&P 500	4507.66	4588.96	4450.38	17.4	14.0
Nasdaq Comp.	14034.97	14346.02	13787.92	34.1	18.8
Total Stock Market	44989.96	45969.67	44411.47	16.8	12.9
Precious Metals:					
Gold	1942.30	1970.65	1912.25	7.2	13.2
Silver	24.44	24.81	22.76	2.9	34.6
Interest Rates:	Aug 23	Jul 23	Jun 23	Dec 22	Aug 22
Prime rate	8.50	8.50	8.25	7.50	5.50
Money market rate	0.57	0.56	0.54	0.33	0.15
3-month T-bill rate	5.34	5.28	5.18	4.35	2.88
20-year T-bond rate	4.39	4.22	4.06	4.14	3.53
Dow Jones Corp.	5.78	5.54	5.54	5.54	4.76
Bond Buyer Muni	4.70	4.37	4.43	4.64	4.43

Sources: Barron's, Wall Street Journal. An investor may not invest directly in an index.

Stock Indices

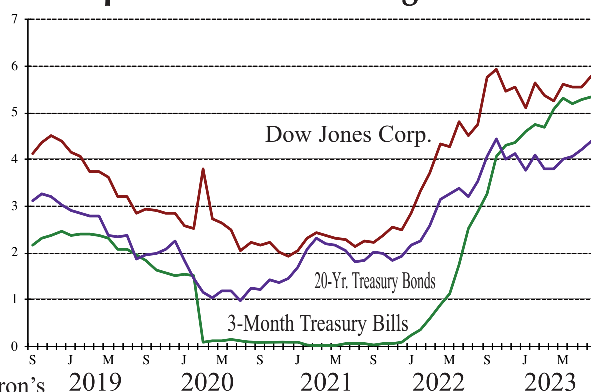
September 2018 to August 2023



Source: Barron's

Interest Rates

September 2018 to August 2023



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