



RECESSION AND DIVERSIFICATION

Are we in a major recession, a mild recession, or just a slump?

Whatever you want to call it, diversification certainly counts.

Investments uncorrelated or indirectly correlated to the stock market - such as CDs, Treasuries and annuities - are getting another look these days. Here's a look at some of the options before investors.

Banking on the future. Under recessionary conditions, short-term CDs, money market accounts and Treasury notes sometimes appeal to those who want to receive a competitive yield versus stocks and bonds over six months or a year with less risk. Treasuries are also free from state income tax, and some Treasuries are TIPS (Treasury Inflation Protected Securities), meaning they are hedged against inflation. The comparative certainty of all these investments appeals to people seeking diversification.

Bonding together. In this kind of economic climate, some investors may also be attracted to bonds and bond funds. Bonds, after all, generally offer the investor a reliable payment stream and repayment of principal. Besides municipal and government bonds, there are also corporate bonds, including fixed-rate capital securities offering predictable monthly, quarterly or semiannual income. Some investors like short-term bond funds, which typically invest in commercial paper, bills, and certificates of deposit. Often, bonds funds generate monthly income, and some allow check-writing so people can meet emergency cash needs. Some exchange-traded funds (ETFs) are bond ETFs, which tend to favor investment in inflation-protected bonds.

A contractual choice. Annuities are another type of investment with little or no correlation to the stock market. Under these contracts, you make payments to an insurance company which in turn agrees to make payments to you, immediately or in the near future. A fixed annuity offers guaranteed income payments and a guaranteed rate of return. A variable annuity usually allows you the choice of stock market participation (usually via mutual fund investment) with possible protection of your principal. An equity-indexed annuity offers potential returns based on market fluctuations and calculations used for each individual index annuity tied to an equity index. There is a possibility of loss of principal if the index linked to the annuity declines, but it usually with a minimum rate of return guaranteed by the insurer.

Is it time to diversify? You may want to learn more about these investments, and others that may help you modify your portfolio for a recession or downturn. Before you make any investment decision, be sure and talk with a qualified financial professional. Keep in mind that diversification does not ensure a profit or protect against a loss.

The guarantees are based on the claims-paying ability of the issuer and do not protect against market fluctuation. The guarantee only applies to the death benefit and does not cover the sub-account investments. Withdrawals of all or part of the value in your annuity before the end of the term of the contract, which could be a long waiting period, may result in withdrawal or surrender charges and/or a reduction in the interest rate credit to the annuity. Earnings are taxable as ordinary income when withdrawn and if taken before age 59 1/2 may be subject to a 10% federal tax penalty.

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Citations.

¹ usatoday.com/money/economy/2008-01-10-bernanke-interest-rates_N.htm - 51k -

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