Brandon Averill ([00:05](https://www.rev.com/transcript-editor/shared/0F_-FdSy__TPk21q22yL8M21EC6E-XTZSaCetKb1QCjIX1iiSMdCnHT4h6k0EeAlGcSb-shm0H87a8IhKmsghWZWQ-E?loadFrom=DocumentDeeplink&ts=5.07)):

All right, buddy. Welcome back to another episode of AWM Insights. Brandon and Justin here. And we're going to tackle kind of a specific topic today, but something that we've been hearing a little bit about from different clients, you guys that are listening. Just really talking about interest rates. And I thought it was a pretty good observation from a client the other day, asking the question, hey, we've been talking a lot about US treasuries and how we can take advantage of some different strategies to be able to really earn some money on some of that savings, that money that we need to make sure is there with US treasuries and in some cases earning north of 5%.

([00:46](https://www.rev.com/transcript-editor/shared/iwHbbdZQtmfUCTH2ZkudqrH9SmMWhDOwQmZZauErbOfB8_lgZQjhZO2uJkVE90HByg151gLGWDgFhrblc5JMswVPWHY?loadFrom=DocumentDeeplink&ts=46.65)):

And the question was, when we can get such a good return, good, quote unquote, from a pretty safe asset like a US Treasury, then it behooves the point. Why are we even worried about allocating to other areas of the market, and can we really have expectations that exceed that?

([01:07](https://www.rev.com/transcript-editor/shared/jEcjEfbuOjIdb3xI3R4V3Fj7VsRhLHlDwaULte7duSLpBbKTP0ELjP4jjupRfvlZOtB8yU_O8SLSeb_XPPCNGqTMLxY?loadFrom=DocumentDeeplink&ts=67.2)):

So we're going to tackle that today and really talk about the relationship between interest rates and stock returns and some of the other investments that you can make.

([01:15](https://www.rev.com/transcript-editor/shared/1W_k7q0Nk6XkaxjNB8qLov7WhF8BIC8726vB3p595hIaBBss_RqJny9pUZybeT8Zg0yrhL0fcJJGTv2D-DNJH9s2pYI?loadFrom=DocumentDeeplink&ts=75.54)):

So maybe, Justin, would love you to start there. I mean, maybe give some context, how abnormal is a 5.5% rate of return or interest rate on a treasury bond? Is that weird? Is it normal, historically? Certainly seems a little weird for people that haven't invested very long, but maybe not historically. And how do you think about the relationship of interest rates and other assets?

Justin Dyer ([01:41](https://www.rev.com/transcript-editor/shared/arXVpAizFoi3-2fHoFKTbQEOe4Mc62EsmxU3Y60A3CxaR0GSqJ5ZlSKzJ1t0-RcK3KHS5lTv3_BaNUEFlSJFme8rNTk?loadFrom=DocumentDeeplink&ts=101.46)):

Well, you hit the nail on the head. It's not abnormal, but really the framing of the question depends on the timeframe in which you're talking about. Over the last, let's call it 15 years, yeah, it's been very abnormal. Interest rates have been incredibly low. That, if you take a step back and look over longer periods of time, or let's just call it the history of the markets, this more recent 10 to 15 year period of time has been the abnormal, been the exception to the rule.

([02:12](https://www.rev.com/transcript-editor/shared/dMKv15QG9Go3vg8I8_TOuMBcOYSgyQnZxw0_Oa052GfbMxNKzuSeHh8ai91GPlWDXF5cZbxDgi3rwZ5p_jTdYkATkxU?loadFrom=DocumentDeeplink&ts=132.84)):

So in the history of the markets, 5 to 6% interest rates on treasuries, not abnormal whatsoever. Actually, it's kind of more of a healthy interest rate. It means typically there's a healthy economy going on, you're getting money, you're earning a decent rate of return on cash, or treasuries if you want to call cash treasuries.

([02:35](https://www.rev.com/transcript-editor/shared/zr7wuZ57q9PtNxbAfRX37AAu7x_Z8uKXl7eIfFDhIJWr84Y8dSidwcGNyb-75Rnl0ZRqbRl72CtlSyXEvV9y3GH_LQs?loadFrom=DocumentDeeplink&ts=155.1)):

And so it's a great question given that the last 10 to 15 years have been so abnormal. But going straight to the punchline, if you look at the history, a 5% interest rate, 6% interest rate, you choose your number, something in that range, being in the marketplace, has existed in good times and bad. It doesn't really give us any true signal of what's going to happen in equity markets. And there's good reason for that, which we'll jump into.

Brandon Averill ([03:06](https://www.rev.com/transcript-editor/shared/P8SADVwNhYm9YfHZ_3mJzPxdczmjuMD1BpBNfTLOILOzqVB5g01bTyzkQcYnYZUGv2JnXz1N-1EGS9wtrfRHMPLeBGE?loadFrom=DocumentDeeplink&ts=186.09)):

Yeah. I think that's a great point is, I was going to ask you that, the signal. There's a bunch of pundits out there, oh, interest rates are so high. This is impending doom in the market. This is going to be the fall of stocks because interest rates are so high. But in reality, when we turn back to the data, the numbers show something actually quite different.

([03:25](https://www.rev.com/transcript-editor/shared/b3jENHc9lcj6w6Xy6vc8TSJusPyYFvXmghB0Wizki80xYgV46g1GWtpv1_pbDPkAilG_Eywn7IakQtKoWKEToLs4SLE?loadFrom=DocumentDeeplink&ts=205.8)):

And so rather than try to memorize these, you did pull some data here, and one of the things that pointed out was that in years with above median interest rates since 1955, and the median interest rate for an average, so three month, treasury yield was 6.7%. So higher than we were today. US stocks actually return an average of 12.1%, which is slightly higher than the average of the below median, which returned 11.6%.

([03:56](https://www.rev.com/transcript-editor/shared/vWeExBmikdpv2kfj5LDEZRcDoGtFjLVsSVe3wRcrxoh5wsfi1bfijP2m9Pi7TKyVbVIfbAEN4aqT6yNuA6BYd3JEwFA?loadFrom=DocumentDeeplink&ts=236.58)):

So not only is it just factually incorrect, but this worry around, hey, there's some data around interest rate tying to big stock market corrections, et cetera, it's just not really founded in any pure evidence.

Justin Dyer ([04:13](https://www.rev.com/transcript-editor/shared/G7-ps7qEouI23-giKvUQDmH2deuKjBtaKh1fKPl-OJb_ASlcqHF_1mjU5UD9kUlaG6m30mwuN-MSy5CaLOBoKQFRnpU?loadFrom=DocumentDeeplink&ts=253.95)):

That's right. And not to get too into the weeds, I'm going to really, really do my best not to get wonky here, but it makes logical sense, right? So going back to my statement, the last 10 to 15 years have been the exception, have been the abnormal period. Interest rates all but being at zero, meaning you're not even keeping up with inflation holding cash. That's a really bizarre framework or set of circumstances to exist in the economy. And it led to some really bizarre, call it unhealthy outcomes, especially when you combine what happened with the pandemic and infusion of capital into the economy. We had bubbles. We had bubbles in crypto, we had bubbles in various parts of the stock market. There was a, you could probably call it a bubble in venture capital. Because capital or cash or money, you name your term, was cheap. And that allowed people to take speculative, unhealthy speculative bets, which led to a bubble.

([05:10](https://www.rev.com/transcript-editor/shared/BN8zxyGPRCQPZoiMLH4N7pK8W3QAhuBbN-jhenp0sj4Cxxy2517yuHEnGbcjiHR26OtZ_b5uez4oJntVZGG5ZmHAI1E?loadFrom=DocumentDeeplink&ts=310.65)):

In more normal times, you want there to be some measured risk taking to ask this very question, where we're saying, "Hey. I have this dollar. I can either invest it in something speculative and high risky, or I could go buy a treasury and earn 5%." If all I need is 5%, you should earn that treasury.

([05:27](https://www.rev.com/transcript-editor/shared/IWt3wI9I1llRxLn2ROA5MISLSw8O-nW8aCAk28-DL2a7jyhYj1lVdxFSlYt2V5idm2h2MY83re2AbEv0U5-aqI5OttM?loadFrom=DocumentDeeplink&ts=327.15)):

But, to your point, taking risk over long periods of time, which you should always take risks with the long-term in mind, still pays off. It should, let me qualify that, I can't predict the future, but it should still pay off. It always has, and there's no reason to expect anything different.

([05:43](https://www.rev.com/transcript-editor/shared/65xXSKkiBKV-_YLMyRNIZs-0_WYJ8tyJT6wgg2rXoYODM9oXo14Nd-HaLR0arZKIZ6gAWApsvD46S1swuyV7pb2sV8k?loadFrom=DocumentDeeplink&ts=343.68)):

So it goes back to properly building your financial structure to align with your priorities. If you need 5%, you shouldn't get too cute with your investments. If you have the ability and/or need ability meaning long-term capacity to put capital at risk, you should take risk with that capital in a very thoughtful way. See many of our other podcasts that we've talked about. But that's where this all really starts to normalize and gives you a much healthier investing environment, actually.

Brandon Averill ([06:12](https://www.rev.com/transcript-editor/shared/1SEdQ1rElwKttOpozv170_0_cF_YIYTYYAWnoSGZ__7uZ-r4XRtu8hevueDg0F7ENVhV1pmRi5s2kQvBYbzSw_S836w?loadFrom=DocumentDeeplink&ts=372.96)):

Right. And I think that's the key point, is the health, right? At the end of the day, you want at that core standpoint, you want alternatives. You want people to actually be able to align the priorities they have when they need the money, with how much certainty they need the money. So if you need the money next year and you need it with 100% certainty, you are probably taking your 5.5% to the bank and buying a US treasury bond, right?

Justin Dyer ([06:37](https://www.rev.com/transcript-editor/shared/YuL-i36wHz6I1rzKUs_Aw7W8iJGakOzVjhu7Wq6_JCq8MfI1Ha5Zm-4hvy_LlzyD1v5wG-YUbqj6wV8I_QFgpGmz42Y?loadFrom=DocumentDeeplink&ts=397.83)):

Yeah, sounds good for that.

Brandon Averill ([06:38](https://www.rev.com/transcript-editor/shared/ZKa7jxITXLyffcQXQDDP7-JrD5CBkpWG6YOC9xJlUMVQ0kk_TzKZAjZjrC9JYW_H7FmgmjTgNf_bVtVIYv1BZRjif_I?loadFrom=DocumentDeeplink&ts=398.76)):

If five years from now you want to build a custom home, portion of that money probably, you want to make sure that you can put a certain infrastructure in place for this home. But do you need the third story? Maybe, maybe not. So you're going to actually take that money, invest in the market, and see what happens. And rely upon the strong evidence that expected returns are high and so you have a good chance of building that third story. So you're willing to take a little bit of risk in that scenario.

([07:10](https://www.rev.com/transcript-editor/shared/KxgJfEzsg0QoIphD0FEMHR4zqr0jbzeOnKg-8HmQqdY4HeAUwtqc0w-agAirdDoG_p50ApdI3zmRyomc8dwoC9UcYlM?loadFrom=DocumentDeeplink&ts=430.17)):

So I think that's really important to understand. And if you have those trade-offs, then you can think more thoughtfully around, what are my priorities? Where do I allocate my money so that way I can achieve those priorities. Comes back to financial structure.

([07:24](https://www.rev.com/transcript-editor/shared/7U1zT7lNeRO_Pe7Ug2eOGAI3sZO7OQAAS8AAkA1pAlyS7300GDDPGvZnDvWNZjKl_F-4p13c1PhmH_ycb4PXC7SrWJY?loadFrom=DocumentDeeplink&ts=444.57)):

But maybe quickly hit on for us Justin, as we probably wrap up here, is really talk about how you construct an expected return. How do you make those decisions? And what can I expect from equity markets and why can I expect that?

Justin Dyer ([07:39](https://www.rev.com/transcript-editor/shared/6u6pOwW3lIZXYotda6XGcsS2C9cHTttw_YWA0Cm0P4wg6W_YyvIJejylkHBunhJ51u4oy43PBlAOd6rkw8WzNkDUh04?loadFrom=DocumentDeeplink&ts=459.51)):

So keeping it as simple as possible, keeping this one-on-one and if anyone wants to go deeper, by all means reach out. I love this stuff. But you can think about expected returns when it comes to investments as building blocks. You start with expected inflation as the foundational piece. Then if you're sticking on the fixed income side, add a real rate of return on top of that. Then you could say, okay, hey, depending on the timeframe in which I'm lending money, because if you're investing in bonds or fixed income, essentially what you're doing is lending money, whether it be to the government or a corporation, et cetera, et cetera. And you should command a different interest rate for the term, the length of time. That's called a term premium.

([08:23](https://www.rev.com/transcript-editor/shared/_qEeGhpbtp6teKddBeATKDL-qoSGektMzMM5AcoeMylrf75RKJKMWhDqQEleRvoQ9UxD5Brp5yuCS3Ssd7FJ6HPxC5I?loadFrom=DocumentDeeplink&ts=503.37)):

You can add things like credit premiums as well. Again, I'm not going to try and go too much into the weeds. But just think, hey, someone with a low credit score versus someone with a high credit score, right? A high credit score, you're going to say, "Hey, I know you're going to pay this off, or you have a higher likelihood of paying this off." Corporations have ratings, and governments and municipalities have ratings, no different than that. And that changes your expected return or the interest rate in which you command.

([08:49](https://www.rev.com/transcript-editor/shared/7pSpB_2aw80xTwkB2VNprXueeZCuOcolCRpEZ1s-DtY1KaUFCRJ9R9I0VNeVHWJAR-jV9ODX5iE4FFZmrqEI442OFO0?loadFrom=DocumentDeeplink&ts=529.98)):

It's a similar type building block structure on the equity or the stock side of the portfolio as well. You want to make sure you're taking into account inflation and then the real rate of return as well, and those are the foundational pieces. If you're going to invest in equity, you want a strong expectation that you're going to at least, and really invest in anything, at least outpace inflation.

([09:10](https://www.rev.com/transcript-editor/shared/wYKnocOkZnmsK7nKQDkmBWjqdZ9Y4fTmg-Ox_eaFNJiJQ8MDEo_Zxn0a04At6PCB19Ta8J6-U14jprXKp-RgF5Z-RJg?loadFrom=DocumentDeeplink&ts=550.08)):

But then because a stock investment can go to zero, we're using a single company example here. If you buy stock in a company, that company can go bankrupt and you lose your investment. That's called an equity premium or equity risk premium.

([09:25](https://www.rev.com/transcript-editor/shared/HQAxTRLGhyj8r_E3MmL2MV3Jx0AQtf5EQ33Da-FaUCBxkJPo24kH9CG_TP5M5XGu0exLNyOVszdFEsPFWBBf0mKNGWo?loadFrom=DocumentDeeplink&ts=565.05)):

And there are other premiums or factors that you can add on to your equation to get some sort of expected return, but these are the basic building blocks when we're thinking about how we should construct portfolios with a given level of risk requirement, but also a commensurate level of expected return. And we really want to match these things up correctly to ensure clients, everyone listening, are able to meet their priorities in the highest probable fashion possible.

Brandon Averill ([09:53](https://www.rev.com/transcript-editor/shared/gGKblK1_W8wsI-SYjCsAxwsgEdl_O6jUeNvVbrwxiIEnc3yJ74niA1u9muFfVs-caEg13kqu8Sq3SryRkw4CJQgNUD0?loadFrom=DocumentDeeplink&ts=593.49)):

Yeah, and I think that's a fantastic way to analogize it, is if those of you that are listening can really think about it in the building block scenario, right? If interest rates are higher than they used to be, our overall expected return naturally should be higher than it used to be. So the relationship doesn't really get impacted too negatively by higher interest rates. And on the reverse side, it actually raises the expectation in the future.

([10:21](https://www.rev.com/transcript-editor/shared/-qlRLtKBMXLJhOElgqnyEISfWPLjA7Xkg9tM6pN3x-mYbaOGTfBK0S_shsYeovveKCkMIAtfD2c4_IUo05UzEWrfFog?loadFrom=DocumentDeeplink&ts=621.99)):

So it's really about lining these things up, making sure that we're in the best position possible to align our priorities ultimately with our expected returns, and you end up with a really robust investment portfolio.

([10:35](https://www.rev.com/transcript-editor/shared/yW7nocZAosvB2M4DfHvm1puh4h-f4UYw2NrTImL7rnPW41IMC33VSycVJd2H4Wv0A47WvD09xmmvpfPPQCM1w4RqXxg?loadFrom=DocumentDeeplink&ts=635.28)):

So hopefully this has been really helpful for everybody today. A little bit of a visit down at least why we're not super worried about interest rates and crashing the market and predicting all these different types of things, but what we're really looking at is evidence for ways that we're going to build the portfolios for you in the future.

([10:52](https://www.rev.com/transcript-editor/shared/074Xl8Rp1YM3VigamogdrVW0S17OhsjAgbwMOIKfNSnq1_1LmcpH-94kvmB7p2r45lhAsd81KDnX0SDZazIJim1Fecc?loadFrom=DocumentDeeplink&ts=652.11)):

And until next time, own your wealth, make an impact, and always be a pro.