

Taking Risk Off The Table

Wealth Depends Podcast — Video

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Hello everyone, and welcome back to the Well... It Depends! podcast. I'm your host, Derek Doyle, and this is Andrew Baron. Today's episode is being recorded on October 1st, 2026. The information in this episode is current as of the date recorded and is not intended as financial, tax, or legal advice. You should consult your tax, financial, and/or legal advisors before implementing any transactions and/or strategies concerning your finances.

In today's first topic, we're gonna talk about the mechanics behind bond yields or interest rates. So prices versus yields. An example would be an existing bond holder's price will fall as interest rates go up. This means because new money is earning a more attractive interest rate than the old bond.

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Why yields are rising even though inflation seems to be cooling. Most a- op-eds and opinionated people who are tracking the bond market have the opinion that supply and demand imbalance is one of the main drivers of why we're starting to see these yields creep up. There are large amounts of government and corporate debt that are competing for new investor dollars.

The US deficit problem hasn't seemed to have been getting any better, and the debt keeps rising, so as more is- issuances of treasuries are one of the main reasons for the yields going up. Another mechanic behind bond yields that Andrew and I have talked about in previous podcast is the mortgage rates.

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Mortgage rates don't have a true tie to the treasury or interest rates moving up, but they highly or heavily track the 10-year yield. This is the first time that we're seeing first-time home buyers really struggle to get a fir... a, a mortgage that is low cost in terms of where the interest rate might rise.

A lot of Andrew, f- a question that I think a lot of people who are interested in buying a home are posing the question of Does it make sense to buy now and

possibly refinance later? At what point would you tell a client a situation or strategy that involves possibly refinancing? When does that come into a plan?

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In general, I think buying a home is a, it's a milestone for anyone, and but y- we shouldn't let any specific macroeconomics be the determining factor. Mm-hmm. The determining factor should always be can you afford to make the monthly payment at whatever interest rate, what we're currently, is currently available.

Yeah, available. Can you afford that? Can you afford the maintenance? Can you afford the repairs? Can you afford the taxes? If the answer is yes to all of those, good, then maybe it makes sense to buy this home if you need to for a job relocation, an expanding family- Yep ... whatever the case may be. That should be why you're buying a home.

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The, under no circumstances would I play a gambling game, 'cause that's really what you're doing. Yeah. "Oh, I'm gonna do a five one arm, seven one arm because I expect interest rates to come down." There's absolutely no reason to think that your timing on a home purchase is going to sync up with rates coming down significantly.

If we really zoom out on interest rates, when we look at the 100-year table, uh, not the 20-year table, the period of low interest rates after the dot com crash was really a You know, unique moment in history rather than being the default, even though it's very heavily weighed on the past 25 years.

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So a 5%, 7% mortgage rate may actually level out, which could in turn bring the prices down- Mm-hmm ... which is where we're seeing most of the unaffordability in the rapid price increases we've seen in basically all assets. Yeah.

And the rising bond yields and we'll use interest rates, yields, same type of terminology, but we'll... good when we dive into this topic. But what we're starting to see is there is a shrinking equity risk premium, and what we mean by that is as you put investor dollars to work in the stock market, there's an expected amount of return that you're perceived to receive for the amount of risk that you're taking.

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Since bond yields and, are rising and fixed income is starting to become a little bit more attractive, there's this loss of am I getting the right amount of return for the amount of risk that I'm taking in the stock market?

So, one of the questions I have for you is, with the equity risk premium now creeping under 1%, are clients truly being paid enough for taking more risk in the equity markets, especially since the S&P 500 is near all-time high?

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This would also, once again, depend on where you are in life- Yep ... your total risk allocation- Mm-hmm ... and a number of other factors. Yep. Where I would just say we should always have our asset allocation, once again, not determined by macro risk.

It's kind of counterintuitive, but having 100% of your portfolio in a, quote-unquote, "very conservative asset" like cash is actually a very aggressive position because it basically means you don't think anything is going to perform and that there's going to be a certain crash soon, right?

Yep. But getting the timing right on that probably isn't likely. So- Yeah ... even if you think that a lot of this tech bubble is overvalued, it still makes sense to have some allocation towards it in case you're wrong and it continues for another five years.

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Yeah. If we look at the housing bubble, they were calling that overvalued in the '96, '97 era, and it went on for 10 plus years, right?

So even if we think that there's mania in the markets, the ability for companies to push valuations higher and higher- Yep ... there's the old adage that, if you wanted to short the market, which is take a negative viewpoint, that the market can actually persist longer than you can stay solvent.

Yeah, and I th- and I think right now, you know, there, there has been always, you know, the joking term of couple years ago i, is the 60/40 portfolio dead because of how poorly bonds- Mm ... and the fixed income market- ... had struggled.

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But I do think there is a lot of value for truly if you are nervous and if you are wanting to lean more conservative, there is a lot of value of taking some of that risk off the table and moving it into fixed income, especially on the short term, mm-hmm.

Oh, absolutely. Staying in c- you know, CDs, money market funds short-term or to intermediate term bonds or debt, you know, that there is a lot of actual real return that is very attractive to investors that might have not been available if you were currently retiring maybe five, 10 years ago- Mm

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When those yields are, you know, and interest rates were much lower, so you're going to a point about the equity premium. There's the duration premium for bonds. Yeah. And the difference between buying a two-year treasury and a 10-year treasury- Yeah ... isn't that significant. Yeah. So staying short-term- Correct

you'll still get a pretty good payout.

Yeah, and that, and that's one thing that we have been advising to a lot of our clients, especially w- on the topic of CDs is right now it does not make much sense to be locking up anything longer than 12, 18 months.

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Staying, like Andrew said, on the short end term so you're not feeling like you're locked into a rate for five, 10 plus years.

That's where it starts to get truly risky on- Mm-hmm ... terms of where you could be possibly earning if you didn't lock it up.

So that, y- and you kind of touched upon it too. I think the key takeaway from the topic today with the bond market and the rising interest rates for some of this debt is having a plan and not letting macroeconomic factors dictate what that exact plan might be.

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And what I mean by that is, is that having a, a good withdrawal strategy and, and then implementing it.

So a lot of those key factors of having a successful withdrawal strategy is time horizon. And you had mentioned it before, Andrew, there's a big difference when you are five years from retirement versus 20 years from retirement- Absolutely

Or in retirement.

So, I guess the question too is this: how do you decide how many years of spending should be in cash for maybe a household versus maybe that short term fixed income bucket? I think sometimes those two can get confused of how much do I keep in cash? Do I have too much cash?

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Where do you think the sweet spot is for some people who might have some concerns or questions about that short term bucket?

Personally, I think six months is a really good target, especially where we are with, um, layoffs- ... which are taking a longer time to get back into labor force if you do, um, experience unemployment Um, that said, it also really depends on how stable your career, et cetera is.

Small business owners might wanna have more, maybe 12 months in cash- Yep ... just because there's much more volatility- Mm-hmm ... in their income.

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Or freelancers, anyone with variable income versus someone who maybe is extremely well-established, maybe something like a doctor where doctors are always going to be in high demand- Mm-hmm unless you make a mistake.

Yeah. So you're pretty much going to employ- maybe closer to three months would be okay for them.

But for the average person, I think six months- Mm-hmm ... of cash readily spending is a good target.

Yeah. And like I said, as we're wrapping up this segment, this is all about having a plan rather than trying to predict where interest rates or yields are gonna go, because that is very hard to do.

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Mm-hmm. And even the people that get paid millions of dollars to do it, they also end up being sometimes wrong. Mm-hmm.

So having a plan, understanding your situation, understanding your tax situation are all important factors when we're trying to plan and put out how much cash, how much should we have tied up in fixed income, what's your trajectory, what's your time horizon.

These are all questions that are important to answering this rather than, are yields or interest- Mm-hmm ... rates going up or down. Cause nobody knows really where that w- answer will, will be.

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So all in all, I think most people should just have a plan and constantly be looking to see if there's anything that they could be expanding upon or changing it given the circumstances.

Um, before we wrap up, anything on the topic that you'd like to add, Andrew?

No, I think you got it.

All right. Thank you guys for watching. I'm your host, Derek Doyle. And I'm Andrew Baron. And we'll see you guys next time.