HOW TO TALK TO YOUR CLIENTS ABOUT… DURATION

For investors with exposure to fixed income, one of the most important portfolio measures is duration. Simply stated, duration is a way to determine the interest-rate sensitivity of bond holdings—meaning, what happens to fixed income investments when interest rates rise or fall. Duration is inversely related to interest rate movement. For example, in the historically low interest rate environment since 2008, being long duration has proved profitable. But recently, in anticipation of the FOMC meeting, Treasury yields have risen—and investors with long duration have suffered.

How should advisors and their clients prepare fixed income portfolios for what many believe will be a rising rate environment?

The answer is to pay close attention to duration. A passive strategy may not be ideal if there is a substantial portion of interest-rate sensitive holdings with long duration. Barclay's AGG Index, for example, has risen in duration from 3.7 years in 2008 to 5.5 years as of this writing. In a rising rate environment, we believe it is advisable for investors to have fixed income holdings with shorter duration to withstand the possibility of rising rates. The Astor Active Income Strategy, for example, currently has a duration of 2.5 years, which we believe is well positioned for a rising rate environment.

Regardless of how the FOMC acts now or in the future, duration is always a key factor for investors and advisors to watch closely to be position fixed-income holdings for the interest rate environment.

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