## Real World Case Studies: Investing and Portfolio Management

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## TODAY'S PRESENTERS



Jason Click, CFP ${ }^{\circledR}$
President, Public Funds
614.760.2120
jclick@meederinvestment.com


Eileen Stanic, CTP ${ }^{\circledR}$ Regional Director, Advisory Services 440.662.8268
estanic@meederinvestment.com
"Experience is what you get when you didn't get what you wanted."

- Randy Pausch
"Experience is the best teacher."
- Latin Proverb


## Case Study \#1 <br> CASH FLOW AND THE INVESTMENT DECISION



## CASH AND INVESTMENTS



National Average Deposit rate


## HISTORICAL CASH FLOW





## CASH AND INVESTMENTS

| BEFORE |
| :---: |
|  |
| $\$ 84$ |
| MILLION |
|  |
| $\$ 28$ |
| MILLION |



## $\$ 620,000+$

Note: Based on the $\$ 62$ million earning $1.00 \%$ above the cash rate

## Case Study \#2

WORKING WITH SERVICE PROVIDERS/
BUSINESS CONTINUITY

## Suitability vs. Fiduciary

"People may confuse the terms suitability and fiduciary. Both seek to protect the investor from foreseeable harm or excessive risk. However, the standards of investor care are different. An investment fiduciary is any person who has the legal responsibility for managing someone else's money. Investment advisors, who are usually fee-based, are bound to fiduciary standards. Broker-dealers, customarily compensated by commission, generally have to fulfill only a suitability obligation."

## MAYBE I SHOULD HAVE SOMEONE ELSE TAKE A LOOK AT THIS...

## Hi ,

We have some maturities in your portfolio this week.
Similar to what we've done in the past, I would like to reinvest these in A1/P1 commercial paper to yield $2.15 \%$.

Thanks,

## Questions

- What are my other alternatives?
- What issuers would be purchased?
- Would I remain in compliance?
- What rates are available elsewhere?


## PREVIOUS EXECUTION

－ 2 purchases of commercial paper
－Both were for 150－day maturity
－Both were sold to yield 2．30\％
－These same issuers were shown by other brokers that day to yield 2．76\％
－Difference in yield equates to $\mathbf{\$ 1 , 9 1 6 . 6 7}$ per million

## Issuers purchased：

中国建设银行
China Construction Bank
－4（a）2 commercial paper
"A man who asks is a fool for five minutes. A man who never asks is a fool for life."

- Chinese Proverb


## EXHIBIT B



How did it get here?


## What if you need cash?

- New project
- Negotiations
- Funding change


## Hypothetical Portfolio Illustration

 portfolio as of 5/9/2022
## Sample Portfolio

Cash
Securities
Total Portfolio

## Sample Securities

Weighted Average Maturity
Weighted Average Yield
Estimated Annual Income

## Sample Asset Allocation



■ US Treasuries

- US Government Agencies
- Commercial Paper
- Municipal Securities


## Your Maturity Distribution



## KNOW THE TYPES OF SERVICE PROVIDERS



## INVESTMENT ADVISOR

- Acts as a fiduciary in the client's best interest
- Who do they work with?
- What are their credentials?
- How are they compensated?
- Check them out: www.investor.gov


## INVESTMENT OBJECTIVES \& GOALS

| LEGAL | Legal may not be suitable |
| :--- | :--- |
| SAFETY | Preservation of principal |
| LIQUIDITY | What are your liquidity needs? |
| YIELD | Does the investment have a competitive yield? |



VALUE ADD OPPORTUNITIES

## HISTORICAL YIELDS



## LOW Yielding Investments

| EXISTING INVESTMENT HOLDING |  |
| :--- | :--- |
| CUSIP | $3133 E L G 81$ |
| ISSUE | FFCB $0.30 \% 6 / 8 / 2023$ |
| PURCHASED | $6 / 8 / 2020$ |
| PAR VALUE | $\$ 3,000,000$ |
| COST BASIS | $\$ 2,994,630$ |
| YIELD TO MATURITY | $0.36 \%$ |
| MARKET VALUE AS OF 5/12/2022 | $\$ 2,939,730$ |
| UNREALIZED LOSS | $(\$ 54,900)$ |

## LOW Yielding Investments

## INVESTMENT OPTIONS

## HOLD TO MATURITY

## SELL PRIOR TO MATURITY

RECEIVE COUPON INCOME OF \$9,700 AND DISCOUNT OF \$5,370

REINVEST AT UNKNOWN RATES AT MATURITY DATE

REALIZE THE LOSS OF \$54,900

## REINVEST AT TODAY'S RATES

## Example CURRENT Investment

| REINVESTMENT AT CURRENT RATES |  |
| :--- | :--- |
| CUSIP | 147330 FUE9 |
| ISSUE | C $2.75 \% 6 / 16 / 23$ |
| PAR VALUE | $\$ 3,000,000$ |
| COST BASIS | $\$ 3,000,000$ |
| YIELD TO MATURITY | $2.75 \%$ |
| INTEREST INCOME | $\$ 90,750$ |

## Why is this IMPORTANT?

## VALUE ADD \$20,780

INTEREST INCOME ON NEW INVESTMENT\$90,750LESS: REALIZED LOSS ON SALE ..... $(\$ 54,900)$
LESS: LOST INTEREST INCOME IF HELD TO MATURITY ..... $(\$ 9,700)$
LESS: LOST DISCOUNT IF HELD TO MATURITY ..... $(\$ 5,370)$
VALUE ADD ..... \$20,780

## CYCLE OF EMOTIONS

## BEHAVIORAL FINANCE



## Herding MENTALITY

## BECOMING INFLUENCED BY PEERS TO FOLLOW A TREND



## PUBLIC ENTITY PORTFOLIO

## AS OF 12/31/2019

## Maturity Distribution



## Portfolio

$$
\begin{array}{lr}
\text { Cash } & \$ 49,643,000 \\
\text { Securities } & \$ 6,276,000 \\
\text { Total Portfolio } & \$ 55,919,000
\end{array}
$$

## What's Priced In Now

Treasuries Fully Pricing In Interest Rate Hikes

-INVESTMENT MANAGEMENT

## Fed's Evolving Rate Plans

Fed's Rate Outlook Evolved Amid Persistent Inflation Pressures And A Faster Decline In Unemployment

Fed Rate Projections (Median) By Meeting


## US TREASURY YIELD CURVES



- Yield curve has steepened with improved economic conditions
- Probability for faster pace of Fed rate hikes has increased
- Discussions on yield curve inversion starting to set in as 2 year and 10 year spreads narrowing


## WHAT CAN YOU DO?

## Have a Plan!

- Review your Investment Policy
- Spend time with your cash flow
- Know your service providers
- Have a strategy



# "The time is always right to do what is right." 

- Martin Luther King, Jr.


## QUESTIONS



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