



INVESTMENT DECISIONS: BEST PRACTICES AND REAL-WORLD CASE STUDIES

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PRESENTED BY:

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1

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2

2



Market Update

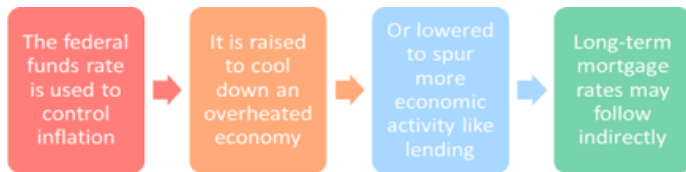
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3

The Federal Funds Rate



When was the last time the Fed Funds Rate was above 5%?



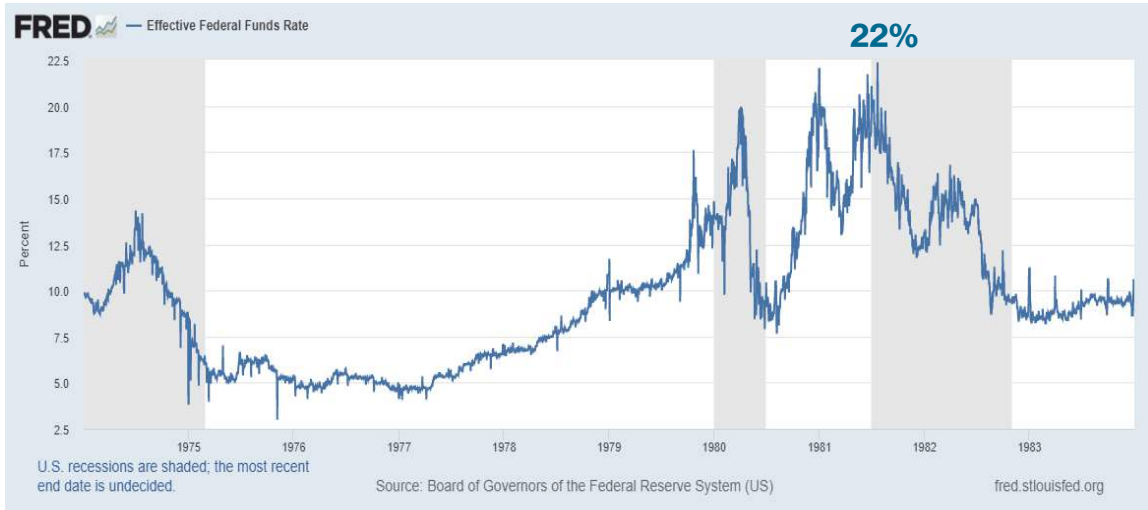
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Effective Federal Funds Rate

1974–1984



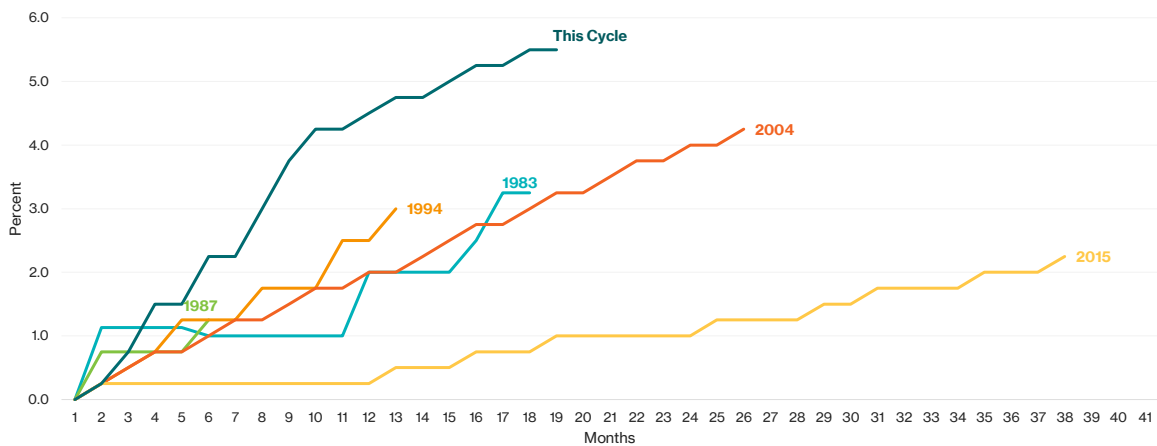
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Fastest Rate Hiking Cycle

The current hiking cycle has been faster than each of the cycles since 1983



SOURCE: BLOOMBERG

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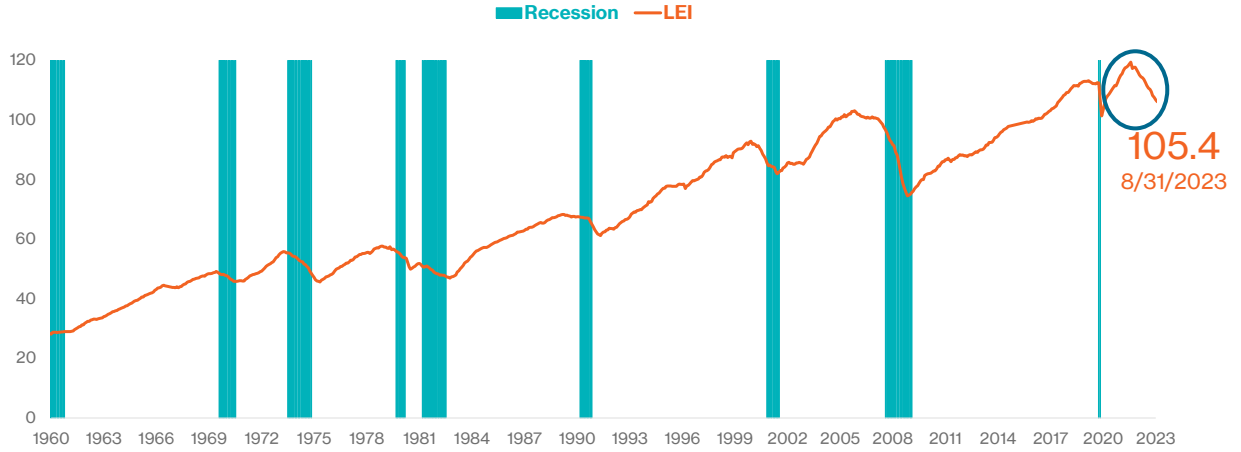
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Economic Slowdown – Leading Economic Index



May 1960 - August 2023



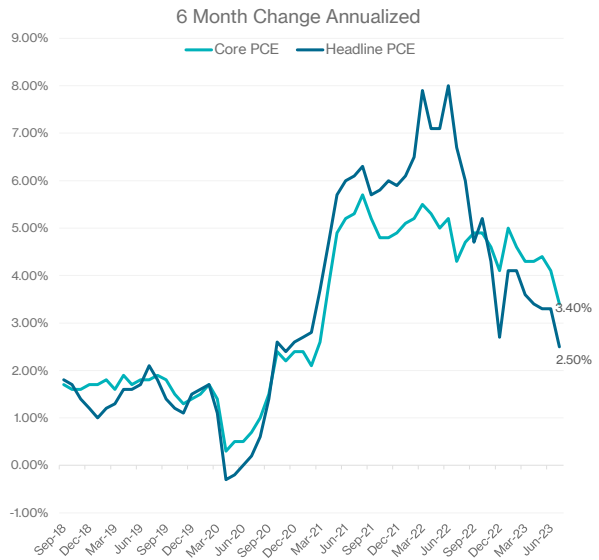
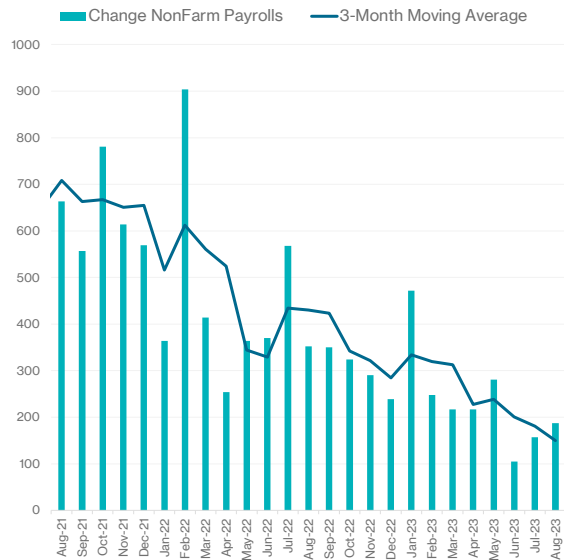
SOURCE: BLOOMBERG, NBER

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Federal Reserve Seeing Success in Loosening Labor Market & Inflation Rate Trending Lower



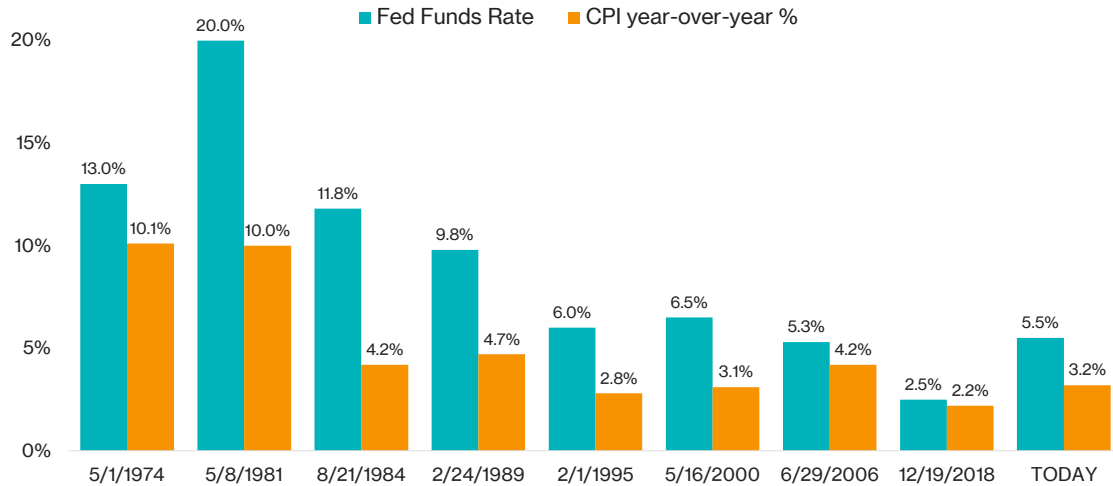
8 SOURCE: BLS, BLOOMBERG

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The FED vs Inflation

Historically Tightening Cycles End When Fed Funds Rate is Above CPI



SOURCE: STRATEGAS

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Pause vs Pivot

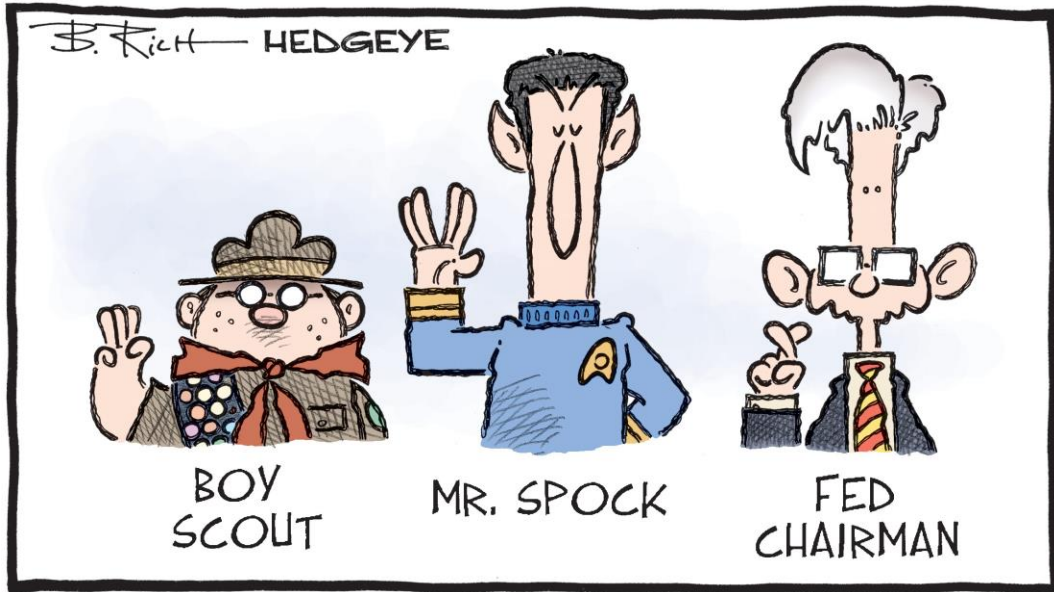


In the five previous hiking cycles since 1990, the Fed paused an average of **10 months** between its last hike and its first cut.

SOURCE: [HTTPS://WWW.BLACKROCK.COM/US/FINANCIAL-PROFESSIONALS/INSIGHTS/OUTLOOK-AFTER-FED-PAUSE](https://www.blackrock.com/us/financial-professionals/insights/outlook-after-fed-pause)

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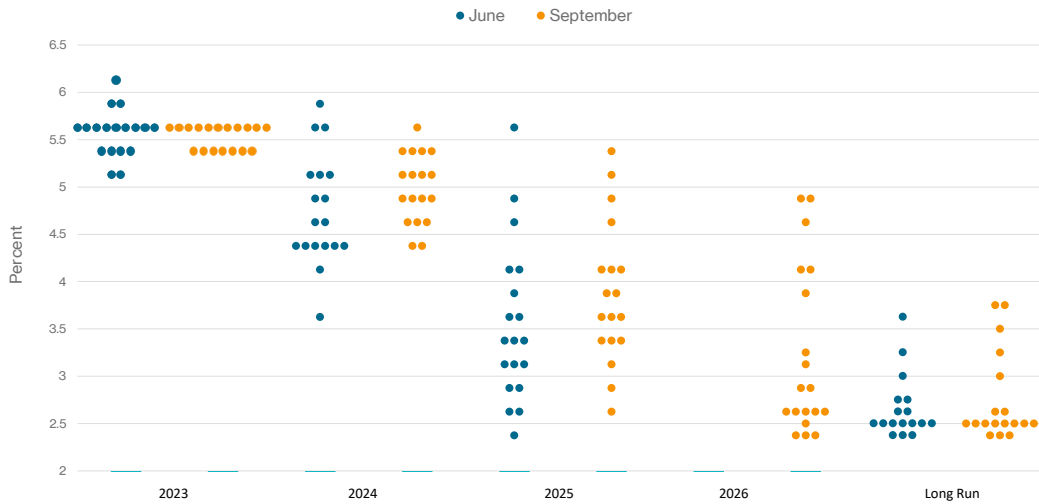


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Federal Reserve Dot Plot Comparison



SOURCE: FEDERAL RESERVE

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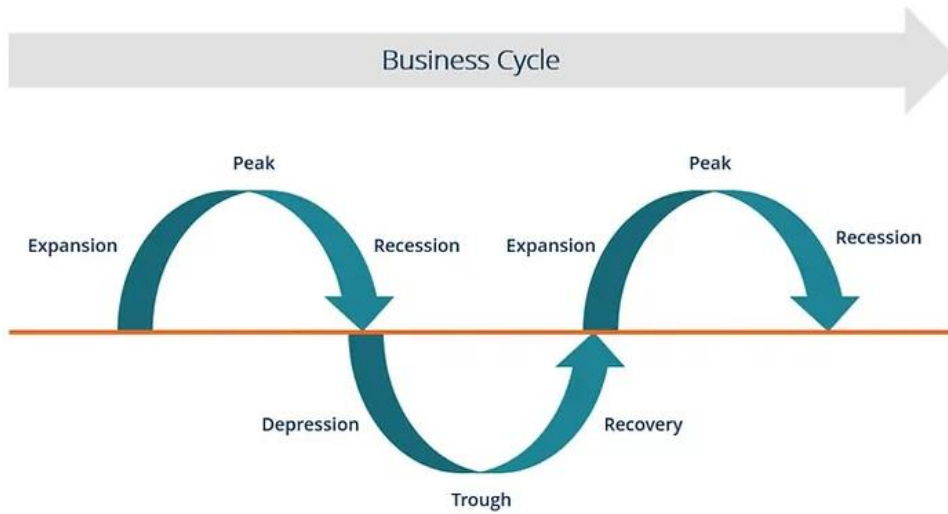
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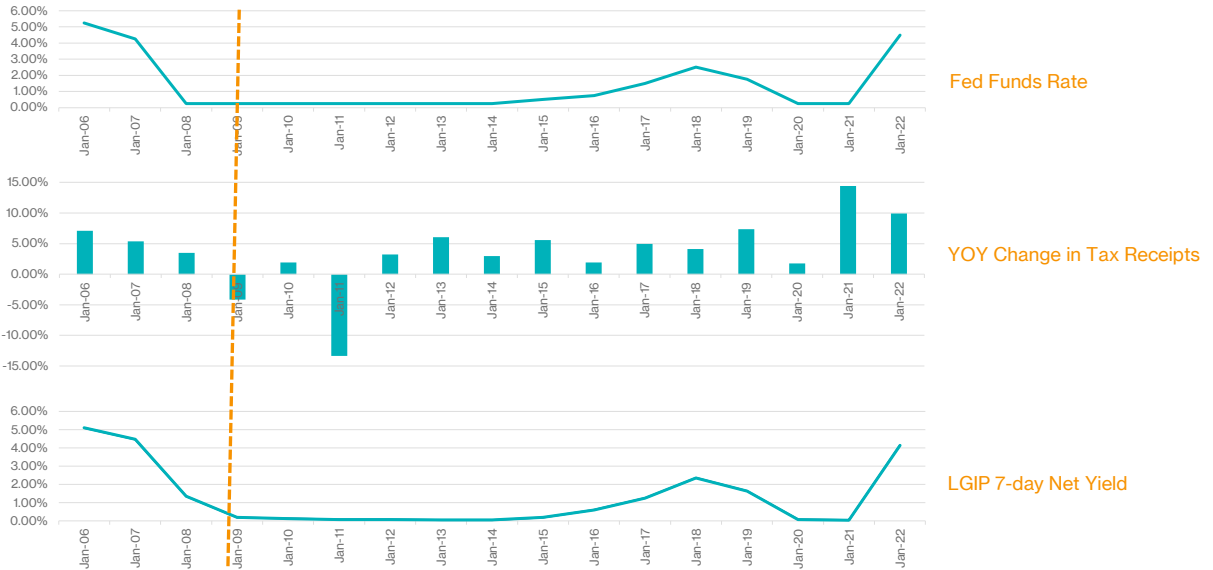


Opportunities

When is Interest Income of Most Value?



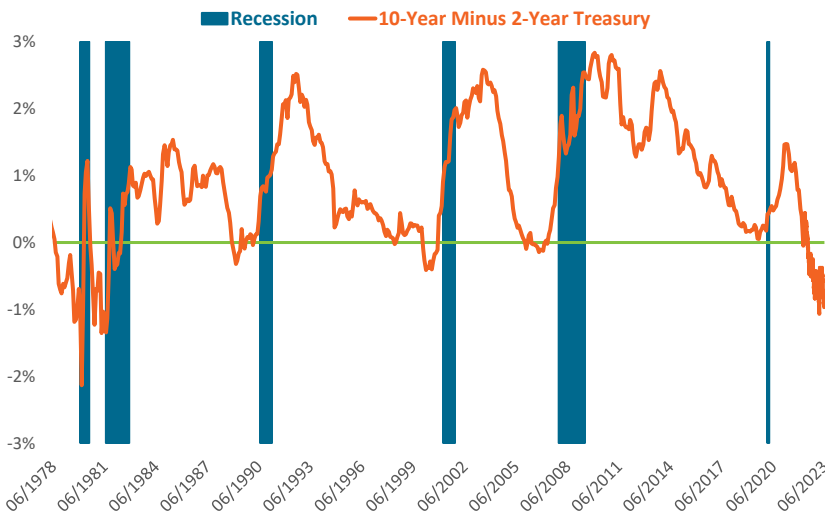
When is Interest Income of Most Value?



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Yield Curve Inversion Continues 10-Year – 2-Year Treasury Spread: June 30, 2023



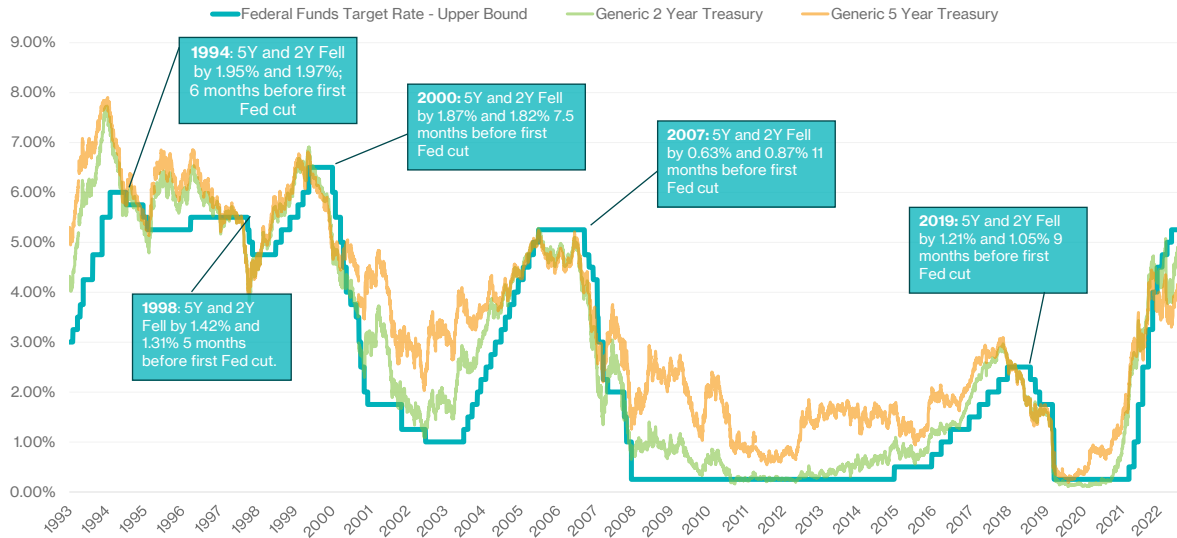
SOURCE: FRED.

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MONTHS
AVERAGE TIME
BETWEEN INVERSION
AND RECESSION

16

Market Interest Rates Stop Rising and Fall Before Federal Rate Cuts Begin

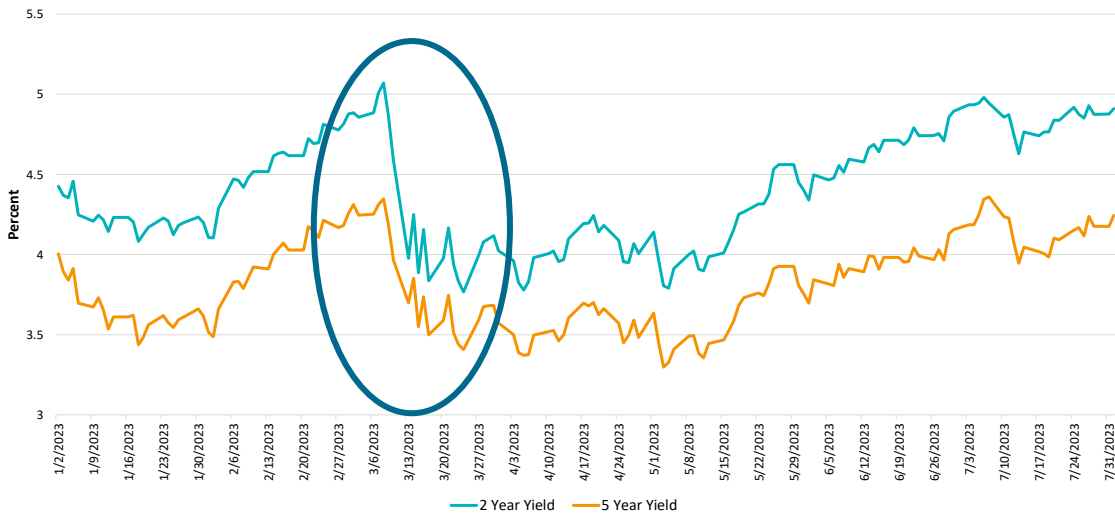


17 SOURCE: BLOOMBERG AS OF 06/30/2023

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17

Change Can Come Quickly



SOURCE: BLOOMBERG

18

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18



Opportunity #1

Cash Flow Analysis and Portfolio “Right Sizing”

19

Portfolio Right-Sizing



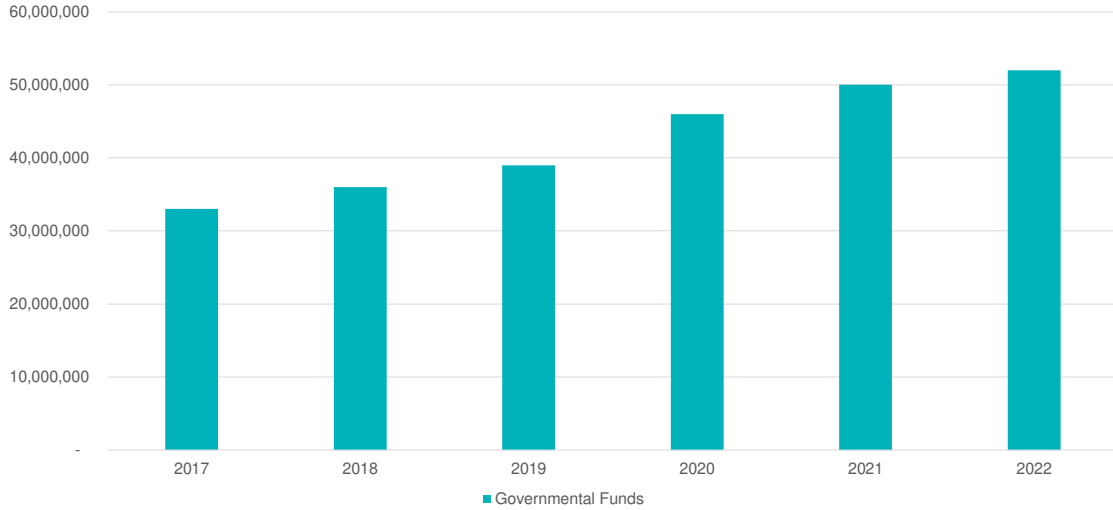
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20

Historical Cash Flows

Annual Balances



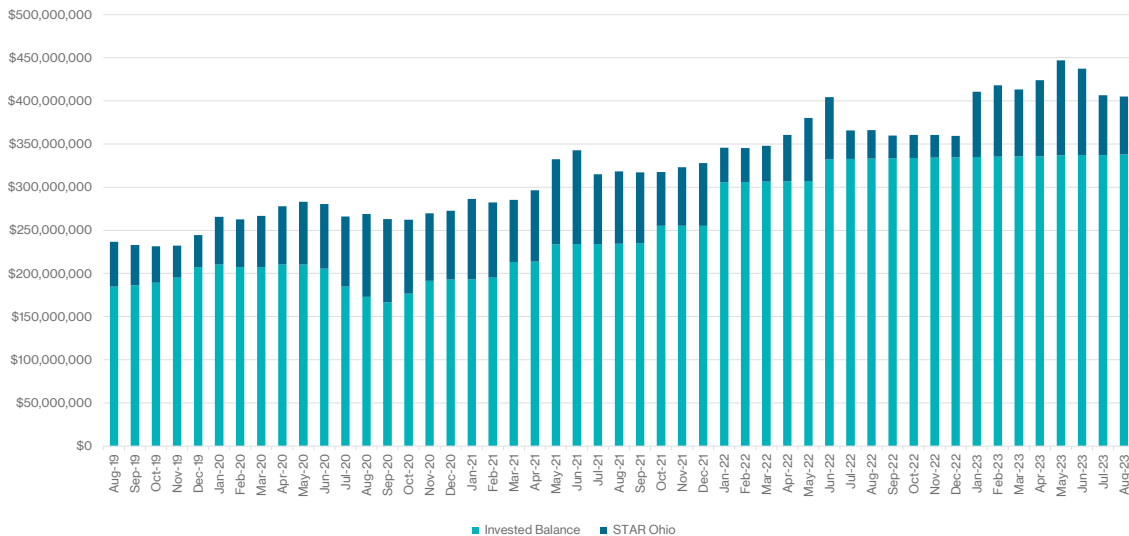
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21

Historical Cash Flows

Monthly Balances

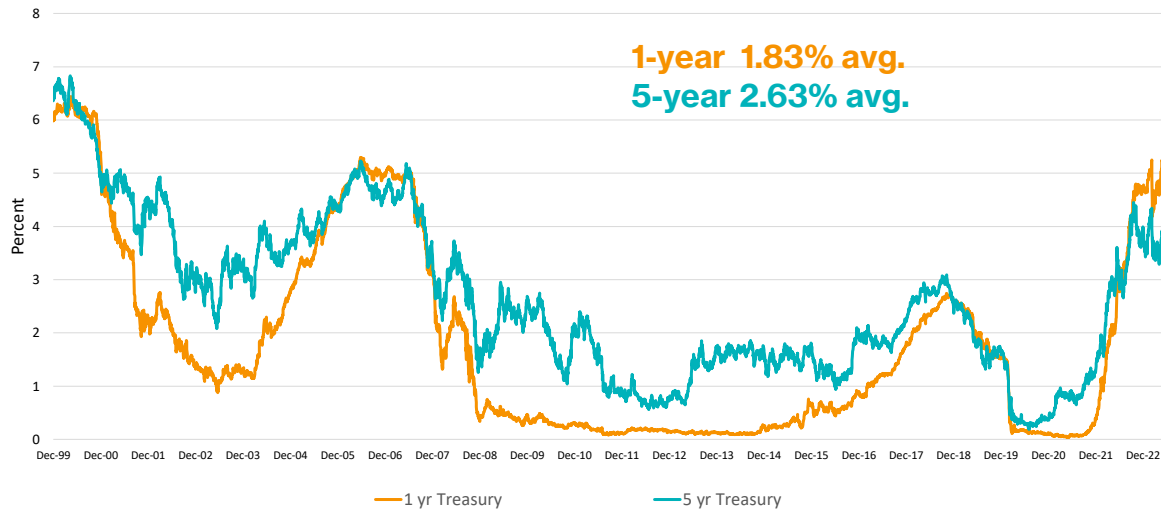


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1-year Treasury versus 5-year Treasury



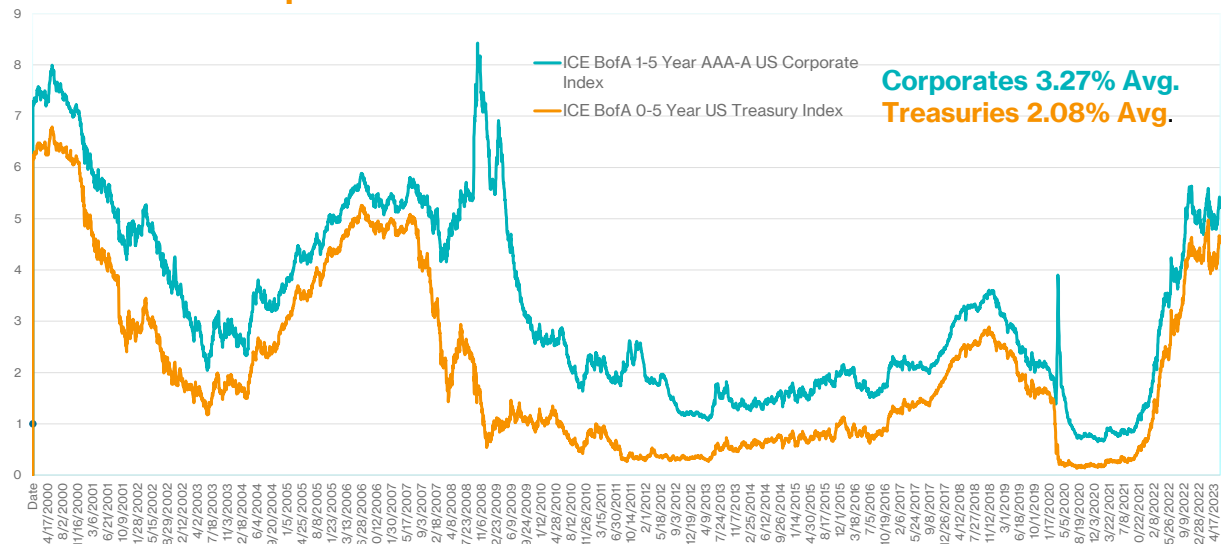
SOURCE: BLOOMBERG

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23

Treasuries Vs. Corporates



SOURCE: BLOOMBERG ICE BOFA 1-5 YEAR AAA-A US CORPORATE INDEX VS. TREASURIES - ICE BOFA 0-5 YEAR US TREASURY INDEX

24

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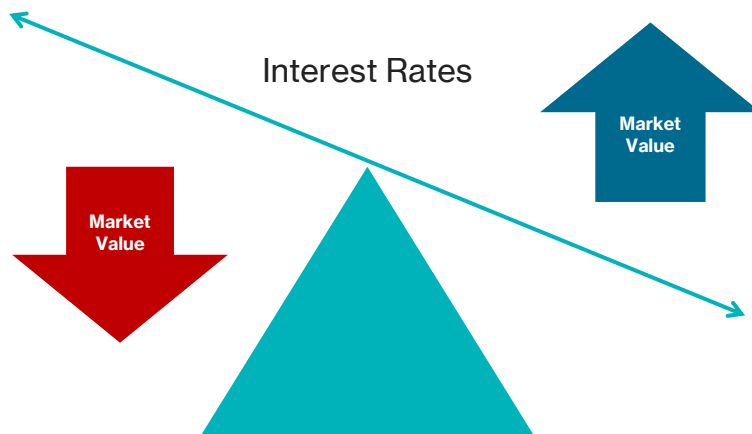


Opportunity#2

What can you do with Unrealized Losses

25

Inverse Relationship



26

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26

Low Yielding Investments



INVESTMENT OPTIONS

HOLD TO MATURITY

SELL PRIOR TO MATURITY

RECEIVE COUPON INCOME and DISCOUNT

REALIZE THE LOSS

REINVEST AT UNKNOWN RATES AT MATURITY DATE

REINVEST AT TODAY'S RATES

27

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27

Swap Breakeven Analysis



Existing Holding:
 \$1 million par value US Treasury, purchased at a discount, matures in 1 year
 Coupon rate 0.375%, unrealized loss \$45,900

Lost Income & Realized Loss on Sale of Security	
Coupon	\$3,750
Discount	\$1,525
Realized Loss	\$45,900
TOTAL TO RECOVER	\$51,175

Reinvestment Rate	Potential Earnings on \$1 million for 1 year
4.00%	\$40,000
4.50%	\$45,000
5.00%	\$50,000
5.50%	\$55,000
6.00%	\$60,000

28

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28

Who Will Help You Invest?

KNOW THE TYPES OF SERVICE PROVIDERS			
STAR OHIO	BANKS	INVESTMENT ADVISORS	BROKERS
<ul style="list-style-type: none"> • Know the underlying investments in the program • Look over the annual report • Understand how program works 	<ul style="list-style-type: none"> • Make sure they understand nuances of public entities • Work with banks you know and trust and with strong financials 	<ul style="list-style-type: none"> • Acts as a fiduciary in the client's best interest • Who do they work with? • What are their credentials? • Check them out: www.investor.gov 	<ul style="list-style-type: none"> • Recommends suitable investments • Who do they work with? • What do they do and how much do they charge? • Check them out: www.finra.org
PERFORM THE DUE DILIGENCE BEFORE INVESTING			

29

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Safekeeping Options

COMPARING THIRD-PARTY CUSTODIAN VERSUS BANK OR BROKER SAFEKEEPING

THIRD-PARTY CUSTODIAN	BANK OR BROKER SAFEKEEPING
<ul style="list-style-type: none"> • Securities held in public entity's name in bank trust department • Transparent cost for service • Public entity controls account • Investment assets protected from bank's creditors 	<ul style="list-style-type: none"> • Securities not held in public entity's name • Cost bundled with other services • Bank or broker controls account • Investment assets may not be protected from bank or broker's creditors

“GFOA recommends that governments use an independent third-party custodial service for safekeeping of investments.”

–Best Practices: Using Safekeeping and Third-Party Custodian Services

<https://www.gfoa.org/materials/using-safekeeping-and-third-party-custodian-services>

30

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30

**“A plan is what, a schedule is when.
It takes BOTH a plan and a
schedule to get things done.”**

–PETER TURLA

31

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32

32

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