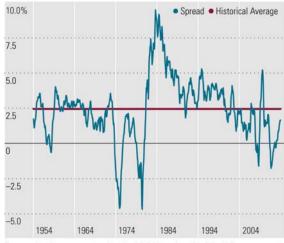
Fed Policy, Inflation, and Interest-Rate Risk

- Based on the relationships outlined here, the 10-year Treasury would be yielding about 4% presently instead of its 2.65% yield at the beginning of March.
- As the Fed tapers and the U.S. economy improves, yields can be expected to increase, which would negatively impact bond prices and therefore, bond returns.
- However, COMPASS has already positioned client portfolios so that the deleterious impact from such an environment is limited.

With interest rates still relatively low, the question today is by how much they are likely to rise. Historically, the 10-year Treasury bond has yielded, on average, about 2.5% over the inflation rate. With inflation at 1.5%, the 10-year Treasury bond typically would yield about 4.0%. In an attempt to support economic and job growth, the Federal Reserve has been purchasing long-term Treasury and mortgagebacked bonds to artificially keep interest rates low. As long as the Fed kept this asset purchase program up, 10-year Treasury yields remained relatively low. However, the Fed has begun tapering, and interest rates are likely to rise significantly in the near future. Both investors and advisors should be aware of the implications of rising interest rates.

Spread of 10-Year Treasury Over Inflation



Treasury bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest.

Source: 10-year Treasury yield data from the Federal Reserve. Inflation is represented by the Consumer Price Index, three-month rolling average, and data from the Federal Reserve. The time period displayed in the chart is January 1954 to December 2013.

©2013 Morningstar, Inc. All Rights Reserved. The information contained herein (1) is intended solely for informational purposes; (2) is proprietary to Morningstar and/or the content providers; (3) is not warranted to be accurate, complete, or timely; and (4) does not constitute investment advice of any kind. Neither Morningstar nor the content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. "Morningstar" and the Morningstar logo are registered trademarks of Morningstar, Inc. Morningstar Market Commentary originally published by Robert Johnson, CFA, Director of Economic Analysis with Morningstar and has been modified for Morningstar Newsletter Builder.



Louis E. Conrad II, CFA President COMPASS Wealth Management 290 Baker Avenue, Suite N101 Concord, Massachusetts 01742

lconrad@compassinvest.com www.compassinvest.com Tel:(978) 254-7040 Fax:(978) 254-7039

© COMPASS Wealth Management, LLC, as well as Morningstar. While the information contained in this newsletter relies on sources believed to be reliable, accuracy cannot be guaranteed. Unless otherwise noted, all information and opinions are as of the date of transmittal, and are subject to change without notice. This newsletter is intended for general informational purposes only and it does not discuss all aspects that may apply to your situation. Please consult with a qualified professional. COMPASS Wealth Management, LLC is a registered investment advisor with the appropriate regulatory authorities. For additional details on the services that COMPASS offers, we encourage you to also review Parts 2A and 2B of our Form ADV, which is provided on request. For details on the selection criteria used to determine the recipients of the FIVE STAR Wealth Manager award, please visit our web site (www.compassinvest.com). The criteria used to determine "Morningstar's Best Client Newsletter", which was awarded to COMPASS in 2012, can be reviewed in The COMPASS Chronicle's September 2012 edition, which is also available on our web site.