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Why Investors Should Consider Taxable Municipal Bonds when Retirement Planning.

Jason Bottenfield of Steward Partners Global Advisory joined Yahoo Finance Live to discuss strategies for retirement planning amid market volatility and why it may be time to consider taxable municipal bonds.

Video Transcript

SEANA SMITH: It's time for our retirement report here brought to you by Fidelity Investments. And for that, we want to bring in Jason Bottenfield. He's wealth manager and partner of Stuart Partners, a global advisory.

And Jason, let's just start with the big story of the week. And that, of course, is the action that we've seen a lot of these heavily shorted names. What are the conversations that you're having with your clients? And I guess what are the biggest concerns that you have after the action that we saw this week?

JASON BOTTENFIELD: Yeah, no, Seana, there's been a lot of action for sure. And it's been on every news channel. So obviously, clients are focusing on it and calling a little bit. I don't think necessarily they're wanting to get involved as much, but, you know, some have asked that question.

A lot of what we're trying to do is just position that look, this is an anomaly that's happening right now. But for those that are getting involved, I think there's some opportunities for education. I mean, this is an opportunity to where a lot of investors, whether they're younger or millennials or whoever saying is getting in on this.

There's an opportunity to really look at how are they positioning those trades that they're getting into? And I think there's a learning moment that's happening here. But as far as our clients, I think we're just kind of educating them on what's happening. They don't really get it. And so that's really what we've been doing this week.

ADAM SHAPIRO: What about those clients who are 10 years from retirement? One of the things we're hearing a lot about now are taxable muni bonds.

JASON BOTTENFIELD: Yeah, so really an opportunity in the taxable municipal bond space is a little bit of a play on, you know, if the new Biden administration is going to be putting money into infrastructure. I mean, that's always on the table. And a lot of presidential administrations talk about it.

But as far as the taxable municipal bond space, we're really using it as really a parking place. So if you're 10 years from retirement or just looking at parking some of your equity gains that you had last year, we're really putting a little bit of money there. You can make a little bit of yield, and they are taxable. So it's not a play on the taxable equivalent yield like a regular municipal bond.

But you do get that credit quality. And if we do get some of those dollars going in, right now, the municipal market's getting a lot of sentiment. A lot of people are pouring into it. And the prices are high. But in the taxable municipal bond space, there's some value there and there's some opportunity.

ADAM SHAPIRO: When you talk about munis though, I thought the attraction to munis years ago was that they weren't taxable. So how should an investor approach that and look at them as part of their portfolio?

JASON BOTTENFIELD: Yeah, as far as the municipal bonds in their portfolio for the tax-free income, I mean, really higher net worth individuals with the Biden administration potentially pushing tax rates, not this year. We don't think it's going to go retroactive. But for 2020, rising taxes always provides an opportunity for municipal bonds to be a big part of a higher net worth investors portfolio just because of that tax-free income.

The problem is you've got to be a little bit of buyer beware here because the prices are pretty high. And they have been going up over the last few years. And especially now that there's a lot of focus on taxes going up, you start to see those prices go up.

But there are some value plays out there. But municipal bonds are a core place for people to park some cash just because of the fact that the risk-free nature– it's not really risk-free, but it's not as risky as equities, and it's not as risky as corporate bonds, because of the way that the nature of muni bonds are structured with municipalities.

SEANA SMITH: Jason, has your approach changed at all now with the Biden administration inside the White House?

JASON BOTTENFIELD: I don't think our approach has changed. I really look at all this. We've got to figure out where the puck's going. What's going to happen with taxes? What's going to happen with some of these regulatory mandates? But I think everybody's been kind of seeing that shift anyways, whether it's talking about where millennials are moving– where technology is moving.

But I think just in general, we've all seen a shift during the pandemic to where technology allows us to do, you know, Zoom meetings. And quite frankly in our business, it's really been an improvement to the way that we're able to operate with client. So trying to latch onto those and trying to figure out where potentially the new administration moves the puck, that's part of the call.

Is it infrastructure spending? Is it pushing more to environmentally friendly which might be looking at hydro cell technology and things of that nature. So yeah, we're trying to figure out where things are going, but I think that shift has already been made. And so we've been making some adjustments along the way.

But with the markets on a high right now, [INAUDIBLE] the new administration or an old one, we've started to look let's go into a little bit more market neutral funds and maybe park some of those gains that we had last year and just see how things play out for the next two months.

SEANA SMITH: Jason Bottenfield at Steward Partners Global Advisory. Thanks so much for joining us today.

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