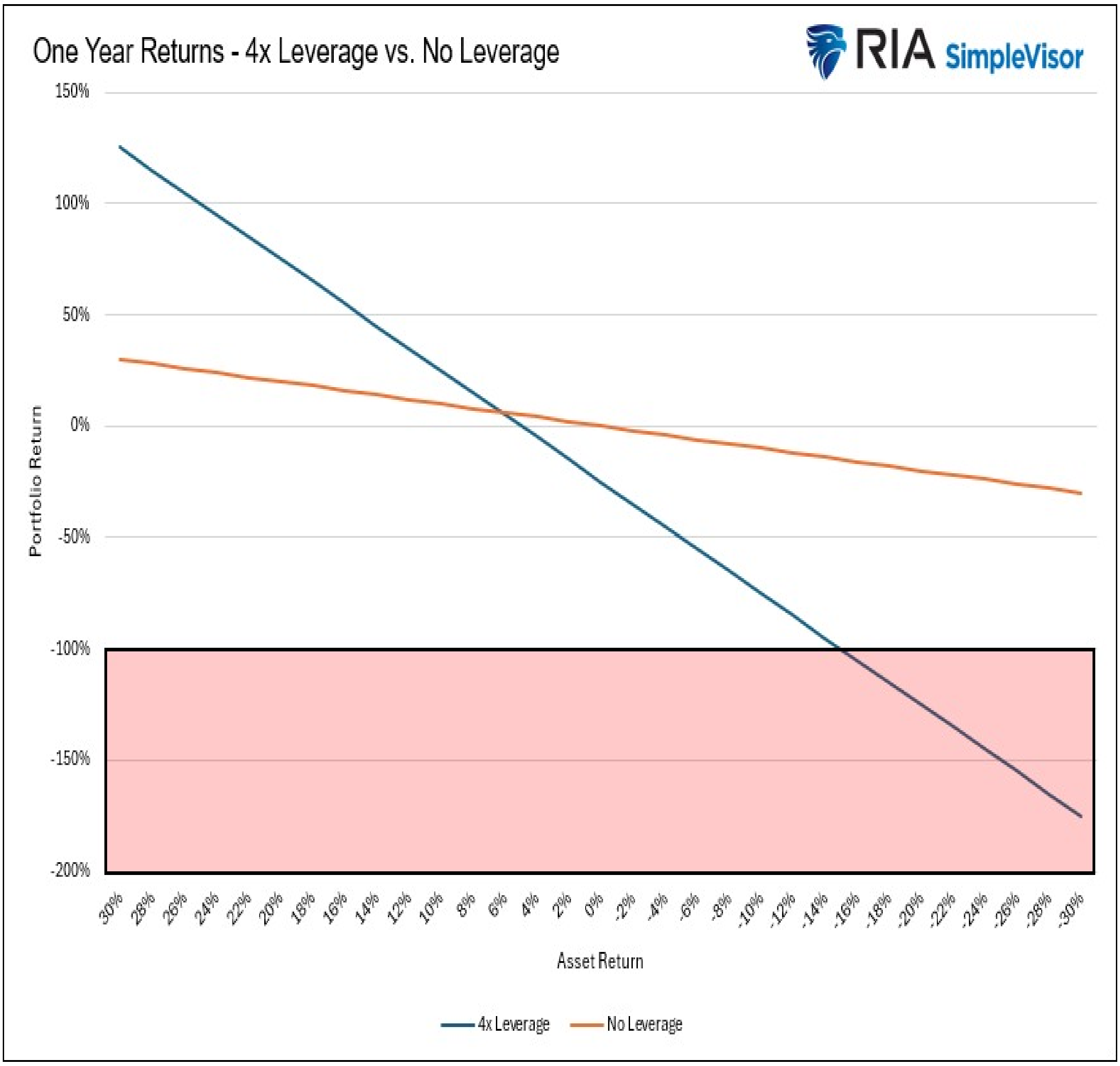
Leverage For Retirement Plans: Is The Risk Appropriate?

Bloomberg recently published, [This 30-Year Old?s Startup Is Bringing Leverage To 401K Savers]. Their article details Basic Capital, a new startup providing institutional investment strategies to individual 401K and IRA savers. Basic Capital allows clients on its retirement savings platforms to use up to 4x leverage. For each dollar saved, its investors can borrow $4. Basic is currently charging about 6.25% to borrow the money. Moreover, to further boost potential returns, they help participants invest in private credit investments in addition to more traditional stock and bond assets. Per Bloomberg:

> *But, the thinking goes, the startup can find private credit investments from the major players in the industry that yield more like 9%, meaning they will throw off enough cash to cover the borrowing costs and then some. Mix in some traditional stock-market exposure, and ? assuming those private credit yields persist and that equities gain in line with historical averages ? the startup said savers can expect low double-digit returns.*

Combining leverage and risky investments increases complexity and risk for retirement savers. While the returns could easily outperform traditional non-leveraged retirement plans over the long run, the risks can be substantial. For instance, at 4x leverage, a 20% decline in the value of a portfolio?s assets results in a 100% loss of principal. The article doesn?t discuss what happens if the retirement plan loss exceeds 100%.

The graph below charts the hypothetical gains and losses for a range of assumed asset returns, assuming the portfolio utilizes 4x leverage. The calculation includes the 6.25% interest expense for leverage but not Basic Capital?s management fees or the 5% it charges on gains upon withdrawal. As shown, a 15% decline in the portfolio value wipes out the investor.



What To Watch Today

Earnings

Wednesday May 14	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Cisco Systems CSCO:US		0.92	0.88		14.04B	12.7B	$223.87B	Q3	PM
Copart CPRT:US		0.42	0.39		1.23B	1.13B	$57.78B	Q3	PM
Target TGT:US		1.79	2.03		24.66B	24.53B	$42.52B	Q1	AM
Steris STE:US		2.60	2.41		1.48B	1.42B	$21.98B	Q4	PM
DXC Technology DXC:US		0.76	0.97		3.14B	3.39B	$2.65B	Q4	PM
Hawkins HWKN:US		0.70	0.66		226.59M	223M	$2.54B	Q4	PM
Jack In The Box JACK:US		1.07	1.46		345.76M	365.35M	$447.2M	Q2	PM

Economy

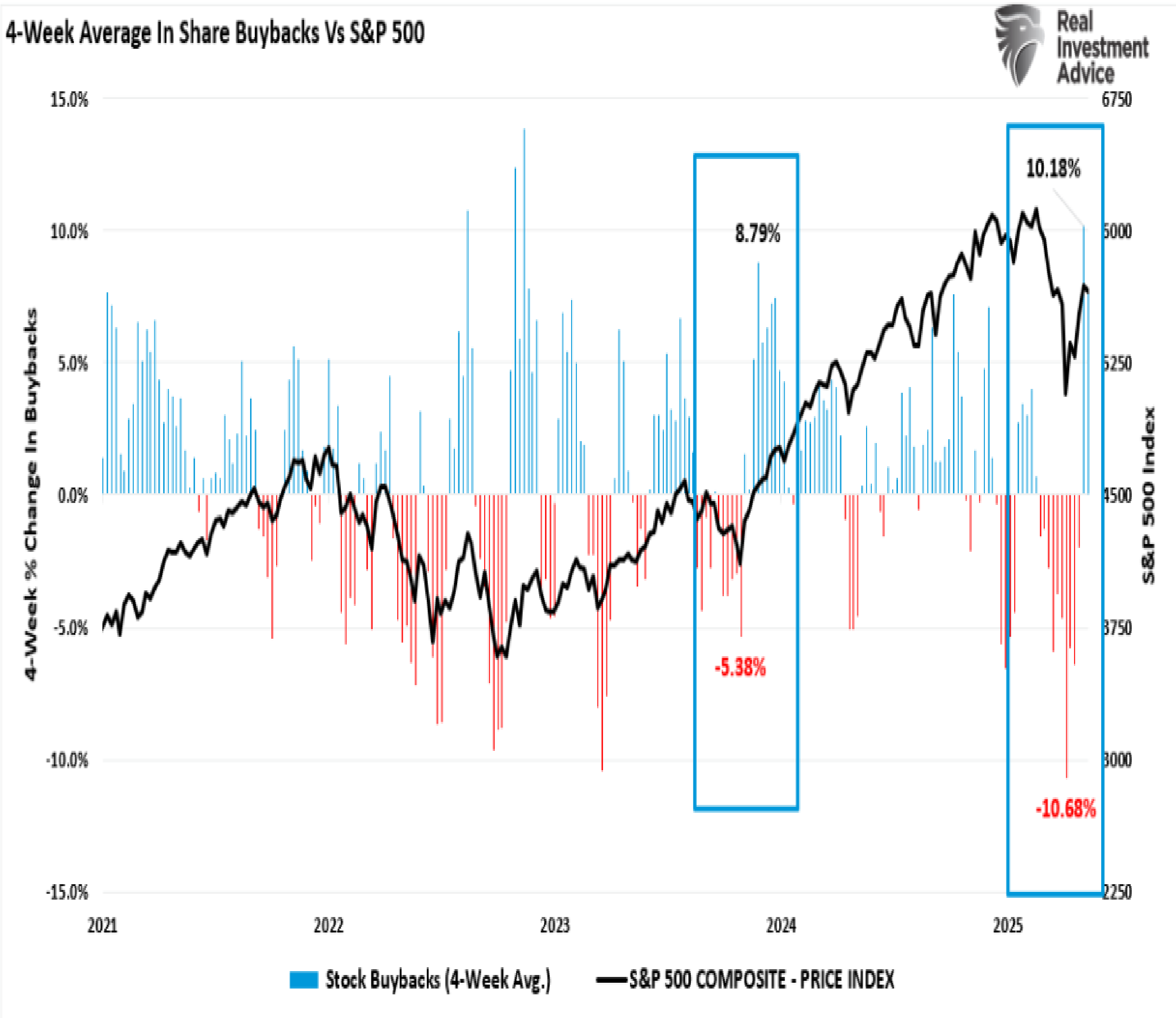
Wednesday May 14 2025			Actual	Previous	Consensus	Forecast
06:00 AM	US	MBA 30-Year Mortgage Rate MAY/09				
06:00 AM	US	MBA Mortgage Applications MAY/09				
06:00 AM	US	MBA Mortgage Market Index MAY/09				
06:00 AM	US	MBA Mortgage Refinance Index MAY/09				
06:00 AM	US	MBA Purchase Index MAY/09				

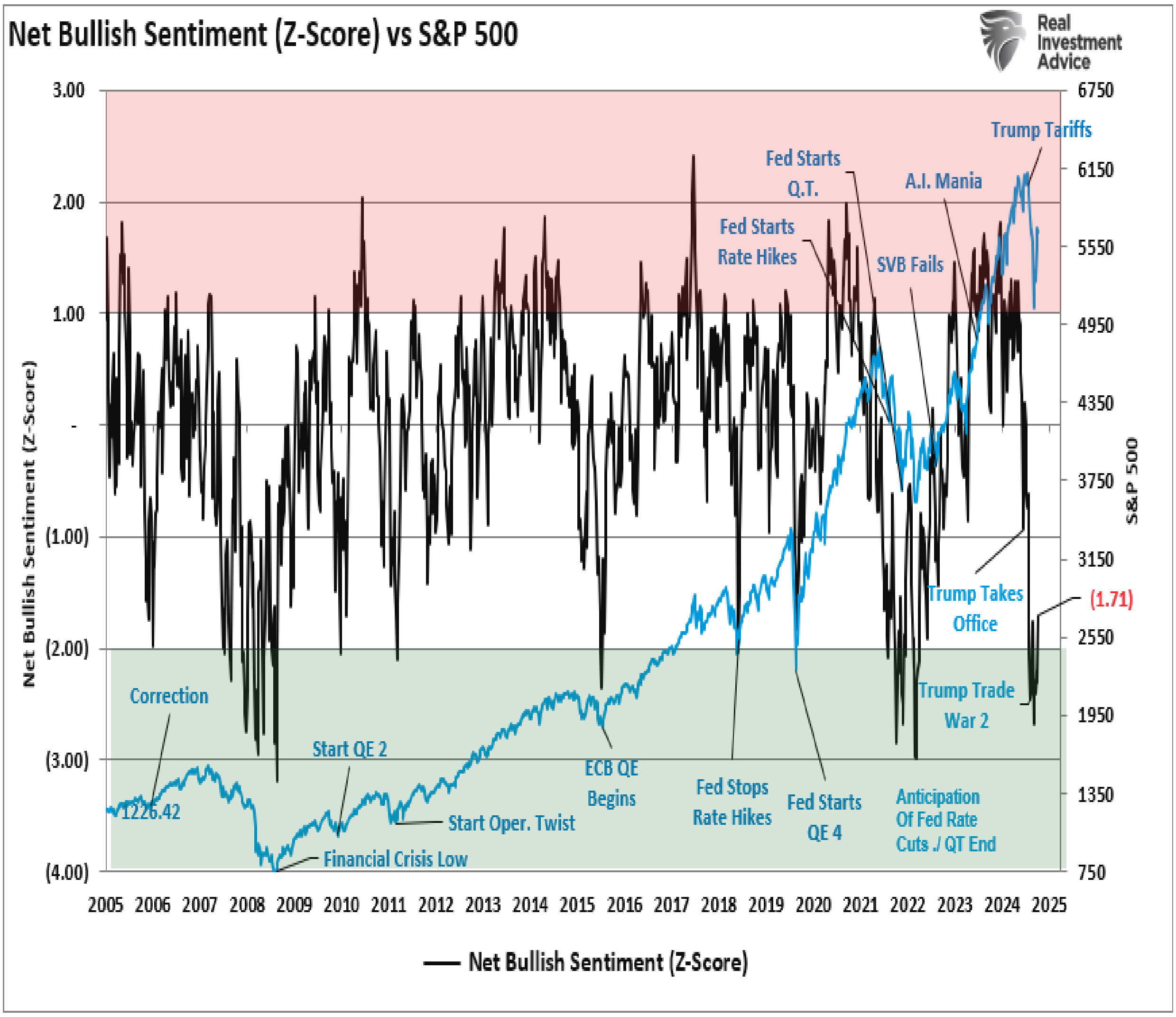
Market Trading Update

Yesterday, we discussed the ongoing rally in the S&P index, stating:

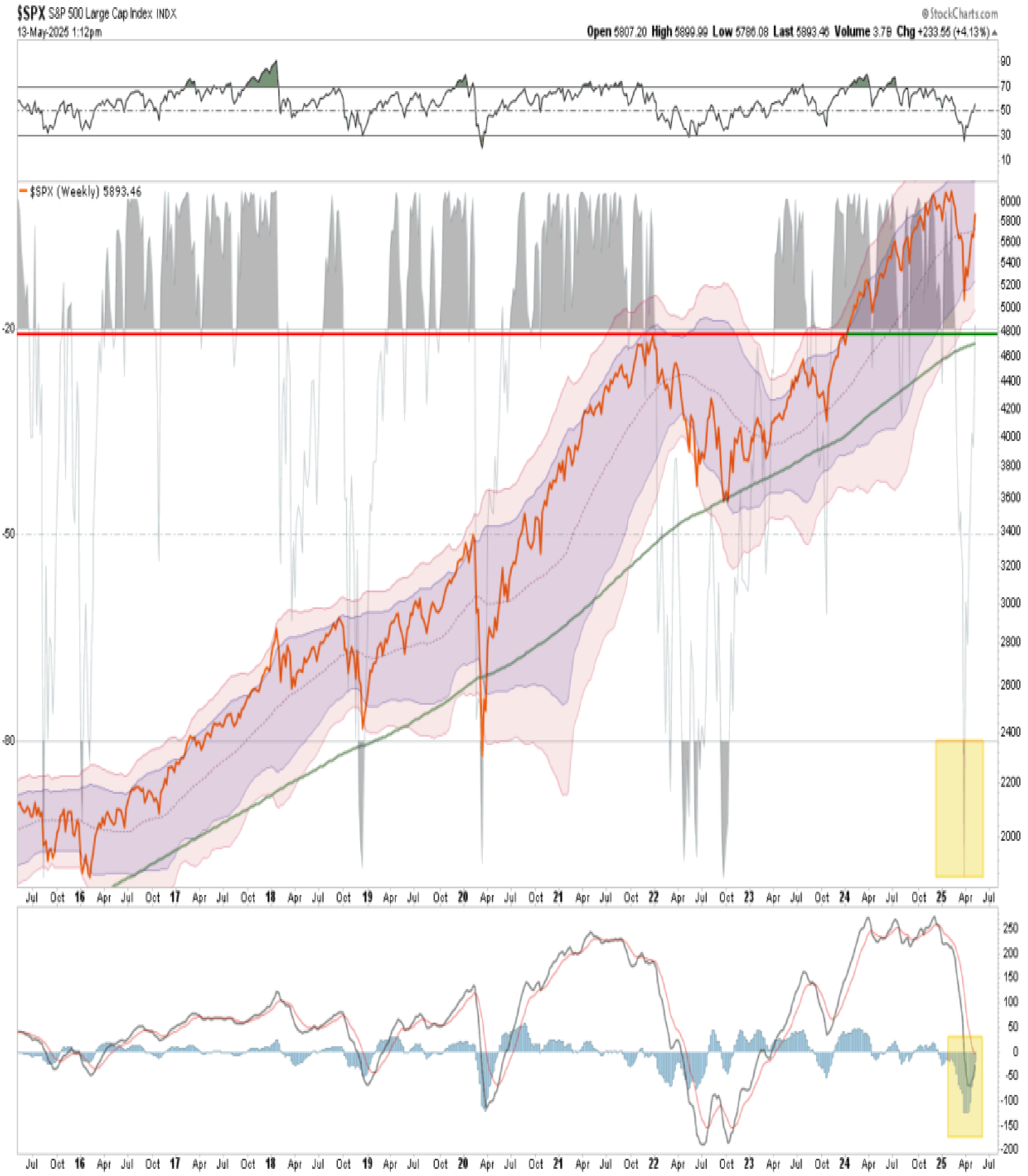
> *?As noted in Monday?s Trading Update, this could still be a&#2013266080;**?bear market rally,?**&#2013266080;as we saw in 2022. Such is entirely possible. But with the markets breaking above both resistance levels at the 100 and 200 DMA, there is a rising probability that the correction process is over. With the MACD pushing more elevated levels and the RSI index approaching overbought, we are at levels where we should expect a ?pause? in the rally before making the next push higher. If the market can consolidate a bit, without breaking back below those previous resistance levels, we will remove hedges and reduce our cash holdings?*

With that analysis still intact, and the market continuing to push higher above key moving averages, the risk of a substantial retracement is fading. While the markets are indeed overbought in the short term, the share buyback surge and the negative professional investor sentiment still support this rally. As such, the risk of a secondary decline over the next month has become substantially diminished.


4-Week Average In Share Buybacks Vs S&P 500
Real Investment Advice
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
4-Week % Change In Buybacks
6750
6000
5250
4500
3750
3000
2250
S&P 500 Index
8.79%
-5.38%
10.18%
-10.68%
2021
2022
2023
2024
2025
Stock Buybacks (4-Week Avg.)
S&P 500 COMPOSITE - PRICE INDEX



As shown on the weekly chart below, the market has recovered from a test of support at the two-standard-deviation level below the 4-year moving average. If we assume that we are not involved in a more protracted process as in 2022, previous tests of two-standard-deviation declines were market bottoms before the bull market resumed. We saw similar tests in 2016, 2018, and 2020. In those cases, the weekly MACD signal declined, and the reversal marked entry points previously.



With the MACD signal having reversed below zero and turning up, investors may have to start considering the possibility that the correction is over. If that is the case, investors? challenge is finding opportunities to increase portfolio equity risk. The *?bear case?* for another *?leg down?* is compelling; however, the market action suggests a more optimistic outcome.

As is always the case, navigating markets for what they are can be emotionally challenging. This is particularly true when markets are at a&#2013266080;*?turning point.?&#2013266080;* &#2013266080;We happen to be at one of those moments when the market could continue to march higher, proving the bulls correct. Conversely, given the technical overbought conditions, it could go lower, giving the bears a victory.

Either has an equal chance of being right. How you decide to handle it is entirely up to you. We are maintaining our long exposure at slightly reduced levels, along with our broad market hedge. The market will eventually pull back. On those days, we will increase exposure, reduce our hedge, and slowly work ourselves back into our normal target weightings.

That?s the plan?we will see if anyone throws a wrench into it.

CPI Again Lower Than Expectations

Monthly and Core CPI rose .2% for April, .1% below expectations. Year over year, CPI fell to 2.3%. The news is better than the headlines when looking at the contributions to inflation, as we share below. Three-quarters of the increase was due to shelter and energy prices. We know shelter prices are trending lower and still decently lag lower real-time rent measures. Similarly, energy prices have fallen significantly over the last month. It takes the BLS two or three months to fully capture changes in energy prices. Moreover, of the ten subcategories we show, five are lower in the month. Inflation is now down to levels last seen in April 2021.

It?s too early to see the full impact of tariffs on inflation. However, the April data provides optimism that any tariff-induced uptick may not be as alarming as some fear.

Contributions to CPI

	April 2025	March 2025	February 2025	January 2025	October 2024	April 2024
Housing/Shelter	0.119	0.078	0.100	0.132	0.140	0.137
Fuels/Utilities	0.049	0.047	0.053	0.022	0.034	-0.015
Household Furnishings	0.042	0.000	0.018	-0.007	-0.003	-0.022
Food/Beverages	-0.011	0.061	0.026	0.052	0.025	0.003
Apperal	-0.005	0.009	0.015	-0.035	-0.038	0.031
Transportation	-0.007	-0.302	-0.066	0.206	0.048	0.110
Medical Care	0.040	0.017	0.022	0.019	0.023	0.035
Recreation	-0.003	-0.004	0.015	0.053	0.022	0.010
Education/Communication	-0.007	0.015	0.014	0.017	-0.017	0.012
Other Goods/Services	0.004	0.028	0.017	-0.009	0.011	0.012

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The Essential Guide To Risk Management In Investment And Retirement Planning

Risk management is one of the most crucial elements of successful financial planning, serving as the foundation for both protecting your assets and achieving your long-term financial goals. Whether you?re in the early stages of building wealth or actively preparing for retirement, the ability to anticipate, understand, and navigate financial risks is vital to maintaining stability and peace of mind.

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This guide outlines the most common financial risks individuals and families may encounter and offers practical, proven strategies to mitigate them. Whether you?re a seasoned investor or just beginning to map out your future, understanding how to manage risk is essential to making informed decisions and securing your financial future with confidence.

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