VLFAlert

ValueLine*funds*

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Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals with our actively managed family of mutual funds.

We hope you enjoy this edition of the VLFAlert and thank you for your continued support.

Rising Interest Rates: What Do They Mean for You?

The Federal Reserve delivered the ninth interest rate hike of its current tightening cycle in December 2018, the fourth in the calendar year just ended, and signaled three more rate hikes during 2019. The increases bring the targeted federal funds rate—which sets the terms for how much you pay on the money you borrow and the money you can earn on savings—closer to historically normal levels after nearly a decade of hovering near zero. How such rising interest rates may affect you could depend on your life stage—starting out, mid-career or either nearing or in retirement. Here are some of the things you should understand about interest rate risk, possible ways to mitigate the risk and potential solutions for your investment portfolio.

Understanding Interest Rate Risk

Interest rate risk is the risk that arises when the absolute level of interest rates fluctuates. Interest rate risk directly affects the values of fixed income securities because interest rates and bond prices are inversely related. So, when interest rates go up, bond prices decline, and vice versa. Less directly so, interest rates also may affect equity investors. For example, when interest rates rise, a company's cost of borrowing also increases, potentially meaning less spending by that company and, in turn, a slowing of corporate growth that could drive a decline in stock prices. Similarly, if consumers have less disposable income because they are paying higher interest rates, they spend less. Corporate earnings then fall, potentially causing stock prices to drop. Sometimes, the raising of interest rates also means heightened equity market volatility.

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Mitigating Interest Rate Risk

While it is difficult to eliminate the impact rising rates may have on your investment portfolio, you may be able to either reduce the impact and/or actually profit from a rise in interest rates.

Clearly, there are some things all of us should do in a rising interest rate environment. For example, if you haven't done so already, start saving more by putting a portion of your money into interest-bearing accounts. And, if you use credit cards, shop around for the best offer and make payments in full if possible! Other prudent actions may depend on the stage of life you are in.

- **Starting Out** – Young adults in their 20s and 30s are often paying down college loan debt while also spending their hard-earned dollars on a first home. Here's what you should know. Federal student loan rates are fixed and will not change. However, private loans tend to be variable rate. Now could be the time to lock in a lower rate. You should also start an emergency fund of six months to a year of living expenses. Online, community or regional banks may be offering the best deals as savings account rates begin to rise. If you are buying a new home, consider locking in with a long-term fixed-rate mortgage.
- **Mid-Career** – If you are in your 40s or 50s, you probably have more assets…and more debt…that could be affected by higher interest rates. If you have a variable rate or adjustable-rate mortgage, switch to a fixed-rate loan now. Similarly with home equity lines of credit—if possible, consider refinancing at a fixed rate. Also, watch how your funds are invested—especially for near-term goals, such as

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529 college savings plans for children who are set to attend college in the next few years.

- **Nearing/In Retirement** – Higher interest rates may have the greatest impact on those close to or in retirement—both negative and positive. On the one hand, you likely have the greatest portion of your assets allocated to fixed income products. However, higher rates can affect different fixed income investments differently. Short-term bonds are correlated with the federal funds rate most. Prices of short-term bonds may initially fall as rates rise, but you can also more easily roll your maturing short-term bonds into newer bonds offering higher yields. The sensitivity of intermediate- and long-term bonds is less, but be sure your investing time horizon is an appropriate match to the maturity of the bond. On the positive side, those looking to interest payments for income to support your spending will benefit as rising rates increase the money you make on short-term CDs, money market accounts and savings accounts.

How the Value Line Funds Can Help Your Investment Portfolio When Interest Rates Rise

For virtually any investor of any age, the best ways to manage interest rate risk are to 1) diversify, 2) rebalance and 3) adjust your fixed income asset allocation. For the investor in either the Value Line Asset Allocation Fund or the Value Line Capital Appreciation Fund, our experienced professional portfolio managers can help mitigate interest rate risk for you. Both of the Value Line hybrid funds primarily contain a flexible allocation of growth-oriented stocks and fixed income securities. Typically, many hybrid funds have a mandate to hold 60% in stocks and 40% in bonds. However, the Value Line hybrid funds have the flexibility to adjust the allocation and dynamically overweight equities or fixed income based on the relative opportunity. Further, within the fixed income portions of each of the Funds, we seek to take advantage of varying maturity bonds as interest rates change.

"We invite you to learn more about these two flexible allocation funds and how they can act as a professionally managed solution to core investing in a variety of market conditions," says Mitchell Appel, President of the Value Line Funds. "With Value Line Funds, investors can be confident that we are straightforward in our investment approach. We understand how important your money is, and we value your trust and confidence in us."

Value Line Funds Include:
Equity Funds
Premier Growth Fund
Larger Companies Focused Fund
Mid Cap Focused Fund
Small Cap Opportunities Fund
Hybrid Funds
Asset Allocation Fund
Capital Appreciation Fund
Fixed Income Funds
Tax Exempt Fund
Core Bond Fund

Value Line Funds' Automatic Investing Plan

Looking for an easy and convenient way to invest with Value Line Funds? Consider enrolling in the Valu-Matic® Investment Program. For as little as $25 per month you can purchase shares of any Value Line Fund and the money is automatically deducted from your checking account. Please call 800.243.2729 for more information.

Check out our News & Commentary at vlfunds.com for the latest on the Value Line Funds.

For more mutual fund information, call today: 800.243.2729 or visit our website at www.vlfunds.com