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Low interest rates demand attention

To avoid potential losses, investors should promptly look into options such as Delaware statutory trusts

FINANCIAL FOCUS

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The single biggest problem facing retirees or income investors is our zero-interest-rate environment.

Following the collapse of the housing market bubble in 2008, the Fed began pursuing an aggressive zero-interest-rate policy in an attempt to revive the economy. This had the salutary effect of providing liquidity to a cash-strapped corporate sector. However, it is wreaking enormous havoc on income yields and there is no end in sight.

Systematically, all the high-yielding assets (municipals, corporate bonds, etc.) are being called away. A return to the market to replace them will reveal some shockingly low yields.

Folks can't live on corporate bond yields of 3.39 percent. Savings accounts are a waste of time. CDs are not any better. And government bonds are a kind of sick joke when greater risk comes with almost no reward. Good luck keeping up with inflation – now at 3 percent, according to the Consumer Price Index – when money is tied up in any of those traditional income sources.

Unfortunately, the Fed has no intention of changing its game plan anytime soon. The truth is that it can't. It must keep interest rates artificially low for a prolonged period of time in order to keep the interest on our monstrous $16 trillion debt manageable. Bond guru Bill Gross, founder of the PIMCO bond fund, thinks rates may remain repressed for a decade or more.

This will harm retirees and other savers while allowing the government to escape the real cost of its overspending.

The Fed is forcing income investors to look beyond traditional investment instruments in order to earn reasonable returns. Peregrine Private Capital began urging investors four years ago to shift some of their money into alternative assets. Income investors must educate themselves about a broader array of investment products and be prepared to move more frequently.

Examples of alternative assets include preferred stocks, energy securities and securitized commercial real estate. These all provide significantly higher yields than available from traditional income sources. Furthermore, these yields are often significantly tax advantaged.

Of particular interest now are Delaware statutory trusts. DSTs are simply fractional interests in some of the best commercial real estate around. Names like Dollar General, T.J. Maxx and Kohl's abound. They also offer some of the highest market yields, at 7 and 8 percent.

I know real estate is still anathema to many investors. However, we are already in the early stages of a recovery in the commercial market. And Warren Buffett recently embarked on a real estate brokerage acquisition binge with Berkshire Hathaway in anticipation of the housing market bottoming after a six-year slump.

The small size of these DSTs also is helpful. It gives the individual investor a huge advantage over the big-time hedge-fund managers and billionaires. Why? Liquidity. There simply aren't enough of these deals and equity available for giant hedge funds or institutional size investors to capitalize. A housewife in Roseburg can use these products and this strategy to generate a comfortable living, while Wall Street billionaires are left out in the cold.

It feels nice to finally turn the tables on these guys, doesn't it? Indeed, there is a way to increase the flow of income generated by investments. Using these products judiciously, folks can boost portfolio dividends or yields significantly. Because they are being purchased closer to the bottom than the top, these supercharged, income-producing investments also offer the potential for significant capital gain.

With the specter of inflation looming, I can predict with some degree of confidence that investors who do not act now will find in five years that they have lost both income and principal.

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