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Where should investors turn in their search for yield?

BY TIMOTHY E. FLATLEY

Clockwise, from top left: *Sean M. Flatley, Michelle Smaltz, Timothy E. Flatley, Lisa Curcio*

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ILLUSTRATION BY KEVIN SPROULS

The Federal Reserve's zero interest-rate policy, now in its seventh year, has generated significant debate regarding the policy's impact on our economy.

What is certain is that any money an investor needs to keep liquid will earn a very low return. "Bond king" Bill Gross has dubbed the situation "fiscal repression," for what occurs when the government reduces interest rates in an effort to stimulate the economy, while reducing the cost of the government debt. In other words, investors earn less interest on their savings and the government pays less interest on their debt.

Yet, investors need liquidity for a variety of reasons, including unforeseen short-term emergency expenses or investment opportunities that have only a short window of time to fund. We work with a number of entrepreneurs who recently sold their companies for significant sums. This results in having to set aside a large amount of funds to pay taxes in six to twelve months.

The answer requires an exhaustive search for yield opportunities. We have done just that, building a solution based upon higher-yielding money market funds, brokered certificate of deposits and short-term municipal bonds.

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MONEY MARKET FUNDS
There is a wide variety of yield in money markets. Many funds have no yield, and in some foreign countries you may even experience a negative yield. We have identified several banks offering yields in the 1 percent range. The FDIC insurance limit is $250,000 per account registration, per bank. If a large sum is needed for taxes, and investors are concerned about insuring all of their balances, they will need to continue to open accounts with different owners. For example, one account might be in the husband's name, one in the wife's name, one as a joint account, etc. There are other convenient ways to spread the risk across multiple banks, to take full advantage of the FDIC limits.

BROKERED CERTIFICATES OF DEPOSIT
Brokered certificates of deposit are a very efficient way to obtain multiple levels of FDIC insurance in one account. Many brokerage accounts allow for the purchase of certificates of deposit from banks across the United States. While the investment in the CD is covered by FDIC insurance, the interest payments may not be guaranteed if a bank defaults. You can build a laddered maturity structure to match maturity dates to the dates that the money is needed for expenses.

SHORT-TERM MUNICIPAL BONDS
Purchasing short-term municipals bonds is another useful cash-management strategy. Currently, investors can hope to achieve after-tax yields in the 1 percent range. It is important to note that these bonds are not FDIC-insured. Therefore, factors like the credit quality of the issuer, the insurance status of the bonds and their maturity dates are all important criteria to understand.

The Federal Reserve has stated that it intends to increase interest rates two more times in 2016. But, the financial markets are betting that only one more hike will occur.

In any case, there may be help on the way in the form of better yields on short-term instruments. In the meantime, investors should have a well-defined asset-allocation strategy which incorporates longer-term investment assets offering even greater yield opportunities. When short-term liquidity is a necessity, research is the key to squeezing out every last basis point of return. ●

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