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The Needle In the Haystack
Finding Yield in a Low Interest Rate Environment

By Andrew Murphy

As of mid-February 2015, The Wall Street Journal reported that 16% of global government bonds now have NEGATIVE yields. Central Banks around the world are still cutting interest rates and the European Central Bank (ECB) has initiated QE (Quantitative Easing) by purchasing 60 Billion Euros of bonds a month.

Large companies such as Apple, Microsoft and many more are currently issuing long term debt with rates below 1%. In fact the Swiss based food conglomerate Nestle just issued debt which matures in just over one year with a negative yield. This means that Investors are actually paying Nestle to borrow the investors' own money!

There are more examples of low yields such as US Based Phillip Morris, the world's largest tobacco company recently issued 5.875% bonds which mature in September 2015 at a yield of .154% and recently issued notes by McDonalds, the world's largest fast food chain, are yielding only .163%.

The low interest rate environment which currently exists does not appear to be changing anytime soon. It may be great for these large companies looking to raise cash but how does it affect individual investors once you factor in that bond interest is fully taxable? Unfortunately it may leave these bondholders with negative after tax yields.

When interest rates are at these low levels it's easy for investors to turn to other assets like stocks, but as we analyze the equities markets it's easy to see that that stocks are once again bid up to the point that they may represent more risk than reward. These low yields have caused investors to pour money into the equities markets, showing that they are willing to accept additional risk to find higher yields.

According to data compiled by Bloomberg, currently half of the stocks which comprise the S&P 500 are trading at 20 times earnings or higher and less than 27% of the S&P 500 stocks are trading at less than 16 times P/E. Stocks are simply expensive these days. This is evidence that investors are chasing yield and taking more risk as they do. Taking on additional risk in your financial portfolio might be ok if you're in your 20's or 30's but as we age and move closer to that goal of retirement, risk can devastate your chances of reaching your financial objectives.

Most investors are averse to taking on additional risk and a recent survey by BlackRock Inc., one of the leading investment management firms in the US showed that at the end of 2014 almost two-thirds (63%) of all savings and investments are currently held in cash and most of that (51%) is in checking and savings. This was a large increase over the 2013 figures and shows that many investors simply don't know where to place money.

So where do you look to achieve attractive returns without taking a commensurate amount of risk? That is an age old question but there is an answer! There are alternative assets not widely known to the public which provide attractive returns without taking undo risk. In fact an investment in Life Settlements completely removes market risk from the equation. A life Settlement is the purchase of an existing life insurance policy from a third party. Some see this as a morbid investment but when you look at the details you quickly realize this is a win/win transaction for both the buyer and seller. Typically seniors, who are selling their life insurance policy do so because they no longer need, no longer want or can no longer afford the policy. Selling it provides far more than the alternative of lapsing or surrendering the policy back to the issuing life insurance company. In fact a report published by the GAO (Government Accountability Office) shows that an average life settlement transaction provides 5-7 times the amount paid to surrender the same policy back to the carrier. So it's easy to see the benefit to the seller.

The benefits as an investor in Life Settlements are dramatic. This is why large institutional investors like Warren Buffet, Goldman Sachs, Credit Suisse and many more have been quietly using the asset class of Life Settlements for years. Life Settlements offer investors a way to increase diversification in an investment portfolio. More importantly the returns generated on these assets are not tied to stock markets, interest rates, commodity prices or real estate prices, nor are they affected by political events like many investments are. The returns are non-correlated. For an investor Life

Settlements are a compelling buy and hold proposition. Life Settlements offer double digit return potential. According to an 11 year empirical study by the London Business School, purchasers across their sample could have expected to earn average annual returns of 12.5% from 2001-2011 with a low of 11% from 2005-2007 and as much as 18.3% in 2011. Another important fact to consider is that life settlements were one of the few assets which weathered the 2008-2009 economic crisis unscathed.

Andrew Murphy, CEO of Reliant Life Shares, a California based firm specialized in providing "qualified" investors access to the Life Settlement markets says, "Due to the large capital requirement to aggregate portfolios of million dollar life insurance policies, many individual investors have been unable to participate in Life Settlement markets, leaving the high returns accessible only to institutional investors." But today this landscape has changed with companies such as Reliant acquiring policies and offering individual investors the opportunity to purchase fractional life settlements, thus allowing small investors the opportunity to profit just like institutional investors have been doing for years.