ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.

Singer Wealth

Keith Singer, JD CFP™

Keith Singer

Singer Wealth

2 Locations:
1515 S. Federal Highway, #211,
Boca Raton, FL 33432

20900 NE 30th Avenue,
Suite 600, Aventura, FL 33180

Phone: 561-998-9985

Website: www.singerwealth.com

Email: Keith@singerwealth.com

Avoiding Interest Rate Risk

In today’s historically low interest rate environment, many people who have a fixed income component to their portfolios are less than thrilled about the interest they are earning. Whether they have corporate, municipal, or treasury bonds, many bond owners have been careful to choose shorter term bonds or even keep a larger allocation to money market accounts to mitigate interest rate risk.

Most people understand that longer term bonds have greater interest rate risk because, if interest rates rise, bonds that pay a fixed coupon lose value because they are now competing in the secondary market with bonds that are paying higher interest. The longer that the bond continues to pay below market interest before it matures, the more value it loses when interest rates rise.

The problem is: bonds with shorter maturities typically pay less interest than longer term bonds. Fixed income investors are faced with the dilemma of making almost no interest or making a little more interest by assuming interest rate risk.

One potential solution is a variable rate lending fund. These funds typically consist of secured bank loans, or they make floating rate secured loans to successful private businesses that need funds to expand operation; however, they are not publicly traded so they cannot issue bonds. If interest rates rise the borrower must pay a higher interest rate. This mitigates interest rate risk for the lender.

These funds will typically pay more interest than high yield bonds with lower historical default rates as well. Variable rate funds can be a reliable source of income for those looking to generate some as well as provide some diversification to one’s portfolio. In a low interest rate environment, if you are getting a loan or a mortgage, most people prefer to lock in a fixed rate in case interest rates increase. However, if you are making a loan in a low interest rate environment, it may be better to make a variable rate loan in case interest rates rise.