Income Investing

When interest rates are high like they are currently, there are some interesting income investments that can produce high levels of income for those who are needing it to fund their retirement which are also very attractive total return investments that can potentially outperform equities with less volatility.

Private credit funds, which are comprised of secured loans made to non-public companies, are currently distributing over 10% per year to investors with very low volatility. Private mortgages, secured by real estate and private mortgage funds, are also distributing over 10% interest with a 20% tax deduction on the income.

For those who are comfortable with a little more risk, funds that make construction loans are yielding 12 to 13%. Alternatively, major banks are offering a variety of income notes, some of which are linked to individual stocks but also notes linked to major indexes like the S&P 500, Russell 2000, and the Dow Jones, that are yielding around 9%.

One example is a note linked to the aforementioned indexes. Each quarter if none of the indexes are down more than 30% investors make 2.25% that quarter (9% annualized). At the end of the term, typically 4 to 5 years, the bond will mature for its original investment. The only way for the investor to lose money is if one of the indexes is down more than 40% from the starting point of 4 or 5 years earlier.

If you look at all the rolling 4-year periods since 1988, the S&P 500 has been 40% lower after four years less than one tenth of one percent of the time. All these income strategies can not only be a great source of income, but the projected returns would all have beaten the S&P 500's annualized 7.4% return since the year 2000.

However, the Fed is expected to cut rates over the next couple of years, starting this September. This will likely put downward pressure on the strategies that are currently available so it may be advisable to explore these options sooner rather than later.

*Yahoo Finance