INCOME INVESTORS

Investors are continuing to misunderstand market strengths by placing their investments in bonds and quality dividend-paying stocks where the fundamentals are quite different and remain shaky at best.

Why is this? Simply, it is all about value.

In the case of bonds I would stipulate that it is clear to anyone paying attention that the bond market is in a ‘bubble’. Many herd following Investors have been rushing into the presumed "safe" U.S. Treasury stocks and investment grade corporate bonds, despite the fact that they have become so expensive which means, in turn, that yields have become so low they are practically guaranteed to produce negative real returns after inflation.

I wonder if the investors buying these bonds understand that they are literally choosing to lose money on their investments over time, which can be simply described as ‘Bubble Investing’. The key defining characteristic of a bubble is when the price of a security or asset becomes totally unhinged from its fundamentals.

During the US housing bubble, which members will recall I accurately predicted , many US home prices rose by almost 20% or more each year for several consecutive years before prices crashed just as I had forecasted, after all in the past, these same US homes had normally seen rises of only 1% or 2% a year on average.

All through the rise in this market there was no rationale why general properties in the US suddenly started rising by 20% per year. It was clear that this represented ‘bubble’ conditions, as I warned members at the time.

Today bonds are exhibiting a parallel situation be warned stay away! Prices are high and completely out of touch with fundamentals as any professional trader should clearly see. Whilst herd investors are foolishly falling over themselves to make negative real returns, this is clearly a bubble that said it could burst at any time. Investors who are buying US Treasury stocks and most US corporate bonds today are almost certainly making a mistake it’s that simple.

I would also comment that today it is an error to buy many of the world's best stocks. To some that might sound radical and I am not saying that quality dividend paying stocks are not a good buy far from it, but I would repeat that it is a question of value and in today’s market it’s just not there!

Herd investors are forgetting the one of the most important rules for investment, purchase assets at the right price! If you want to make money that is?

These stocks do not usually make big short-term moves. This indicates greater stability, allowing reinvestment of dividends and increasing wealth over a long period of time, although that usually positive trend should be seen as negative from time to time.

These "boring" stocks are currently in favour with the herd and, since many of the stocks in question have rallied significantly, the investment world is taking notice. Investors naturally want to buy what is doing well.

Sensible investors who bought these stocks when they were unpopular are probably feeling pretty good and perhaps being tempted to buy a little more, since these are safe, dividend-paying stocks.

Investors who ignored these types of investments earlier because they were "boring," are now getting interested I would warn that this is bad for the value of these stocks. This strategy may work for professional short-term momentum traders, but it tends to be a disaster for this type of long term none professional or herd investor.

Just in case any members are tempted by the media hype- I would go on record to warn that these stocks have been rallying significantly because they no longer hold the values they had previously. And further cite that the high share prices are indeed the enemy of the long-term investor. To keep it simple the higher the price you pay, the lower your rate of future returns. **This ia a very stong message that really should be heeded so again keep away from these stocks!**

If bonds and many top dividend-paying US stocks are too expensive to safely buy at present, what should members invest in? Most importantly, if great values cannot be found, consideration should be given to a fixed income product such as our own RIO Fixed Iincome Bond. This product with its capital guarantee, coupled with the fact that it is based in an undervalued currency in US dollar terms, Sterling, is a very attractive buy at current level at 1.49 or below. More importantly for many the bond above offers the added advantage of having an attractive fixed return, 7% per annum which is fixed for a term of 5 years.

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