

The Fed Has Taken Away Your Income Investments – How Can You Create Income?

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Problem #1

Savers are in a dilemma: they're not getting enough return to equal inflation.

Two-Year Government Bond Yields

Near-Zero Return

- United States 0.78%
- Portugal 0.56%
- Spain 0.00%
- United Kingdom 0.45%

Below Zero Return

- France -0.45%
- Germany -0.50%
- Sweden -0.68%
- Switzerland -1.03%
- Italy -0.01%
- Japan -0.23%

Official 2015 U.S. inflation was 1.1%

Problem #2

U.S. and foreign rates are near a bottom,
and should rise in the next 2- and 5-year periods.

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Alternatives to Select From:

- **U.S. and foreign bonds**, only when rates are falling; today, Brazil and Russia.
- **U.S. income-producing stocks**, anytime. (Avoid income stocks with flat income; historically, they fall as interest rates rise.)
- **Preferred stocks** (only when rates are falling).
- **REITs** (only those where income grows, or they can grow yield).
- **MLPs** (only when rates are falling, or they can grow yield).

The Guild Investment Management Solution

Alternatives to Select From:

- **Foreign stocks** with growing dividends due to exports and lower currency, anytime (hedge currency when necessary).
- **Foreign stocks** where currency has been battered and will rally (again, Brazil and Russia stand out as opportunities)
- **High-yield stocks** that can pay 6–7%, and where rate rises are too small to affect them.
- **Gold**, because of distrust in government and the end of a long debt cycle (\$20 trillion in U.S. debt, uncounted trillions in growing global debt etc.).

U.S. and Foreign Fixed-Return Investments

	When Rates Are Rising	When Rates Are Falling
U.S. and Foreign Bonds	No	Yes
Preferred Stocks	No	Yes
Non-growing MLPs	No	Yes
Non-growing REITs	No	Yes

These fixed-return instruments fall when interest rates rise, and rise when interest rates fall...

Own only in a declining interest-rate environment.

Growth/Income Stocks Offer a Solution

	When Rates Are Rising	When Rates Are Falling
U.S. income stocks (where income grows)	Yes	Yes
REITs (where income grows)	Yes	Yes
MLPs (where income grows and commodity prices are flat or up)	Yes	Yes

We like this group now

Buy this group once there is an oil correction to ~\$35/barrel

Growth/Income Stocks Offer a Solution

	When Rates Are Rising	When Rates Are Falling
Foreign income bonds (where currency rebounds and interest rates fall)	Yes	Yes
Foreign stocks (where currency rebounds)	Yes	Yes

*Especially
Brazilian,
Indian, and
Russian Bonds*

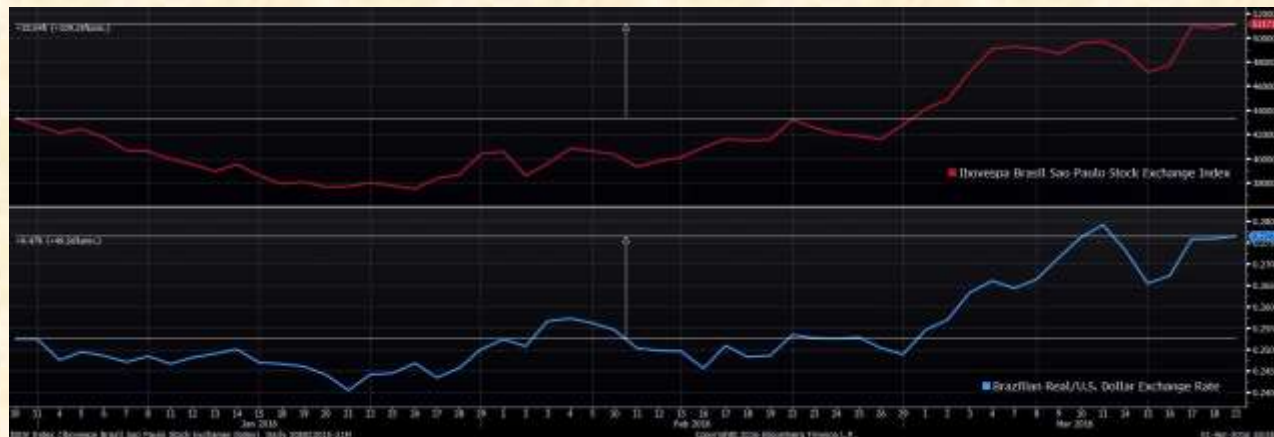
*Russia and
Brazil*

Brazil and Russia: Reversion to the Mean

Brazil's perfect storm:

- The end of the commodity supercycle that drove more than a decade of growth;
- An economic depression;
- A political scandal that threatens to bring down the ruling party.

Mean reversion has given Brazil a strong start to 2016, and over the next two years **could further lift Brazilian stocks, bonds, and currency. (Expect volatility.)**



Brazil and Russia: Reversion to the Mean

Russia also presents risks and opportunities:

- Economy beaten down by the collapse in oil price, but most of the pain of adjustment has been taken already.
- Sanctions against Putin's adventurism could be removed, or could become more severe if he acts again in eastern Europe.

The Russian stock market has performed well, but the Russian currency has declined dramatically. **A mean-reversion would reward investors here as well. (Expect volatility.)**



Current Investment Strategy

Assumption #1: Rates are at or near lows

Assumption #2: Rates will rise

- 1) Own instruments that have rising yields
- 2) Own instruments with solid financial statements
- 3) Hedge foreign currency exposure when necessary
- 4) Own instruments financed by beaten-down commodities if the company's balance sheet is strong, e.g., gold mining stocks, oil transportation stocks, Russian and Brazilian bonds.

During major market declines,
hedge stock positions or *hold cash*:

- For taxable accounts, hedge
- For non-taxable accounts, hold cash



GUILD INVESTMENT MANAGEMENT

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We look forward to speaking with you