Why Loan Money For Free?

A Conservative Investor's Approach

By Mark Fried

Today, conservative investors face a dilemma of historic proportions. In days gone by, a conservative investor would purchase an A rated municipal bond or a CD and get 4% to 6% return which is plenty of interest to support their lifestyle and keep their money safe for the future.

While we all believe that interest rates will eventually move back to normal rates, when will it happen? The Federal Reserve keeps extending the date when they will let rates rise. With $16 trillion in debt outstanding, the Federal Government certainly doesn't want interest rates to rise anytime soon.

So what is a conservative investor to do?

Let me make a suggestion… Think like a lender not an investor.

Investors give money to companies in return for the promise or expectation that they'll receive more money back at a later date. Investors tend to closely monitor the daily changes in the investment's price and conditions, which may affect its future price.

Lenders give money to borrowers in return for an agreed income level and their assessment of the chances of default. They also monitor the ongoing changes in the chance of default.

Conservatively-minded investors might be more comfortable thinking like a Lender and not like an Investor. This should allow a longer-term view of investing where periodic volatility is much less of a worry.

Pure Investments

For a conservative investor, a pure investment can create a rollercoaster of emotions. To be successful, an investment must not only increase in value but there must be a buyer for his investment at a price higher than his cost. Even if the value of the investment went up, if the current price is less than the purchase price you still lost money.

Loans

As a lender your measure of success is not the share price but the reliability of income payments. The lender focuses on cash flows of the borrower's business and the potential for deterioration in financial position. These conditions tend to be much less volatile than a pure investment. A lender can therefore be less emotionally stressed than an investor.

How do you know if your purchase is a Loan or an Investment?

As an example, let's look at Kimberley Clark, Verizon and so on. You might select them for their loan-like features of a consistent reliable dividend.

They provide an attractive income in the 3% - 5% range. In the past, they have grown their businesses and their dividends over the years. They have the potential for additional bonuses due to increases in their dividend or increases in their stock price.

Why loan money for free?

If you make a pure investment, as we define it, then you are effectively lending your money for free.

If you are a conservative investor like us, might I suggest acting more like a lender than an investor the next time you evaluate a securities purchase. For more information about conservative investing, please feel free to give me a call at 866-296-8156. **LL**

Mark Fried, Founder and President of TFG Wealth Man¬agement, is uniquely qualified as an Investment Advisor for these complex times. Beyond his training and certifications, Mark's diverse experience includes being Director of the Penn¬sylvania Economic Development Authority, Vice President in the Investment Advisory Department of W.H. Newbold and Son, President of Stone Bridge Trust Company, Investment Advisor for a Fortune 400 family, and former owner of a bene¬fits and 401(k) company which assisted hundreds of small busi¬ness owners. You can reach Mark directly at mark@tfgwealth.com or visit the company website at www.tfg-wealth.com.