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4 WAYS TO LOCK IN YIELDS ABOVE 5%

With the Fed likely to start cutting interest rates this year, now is the time to act to preserve today's higher income



By: Debbie Carlson - February 28, 2024

With some money-market mutual funds and high-yield savings accounts still sporting 5% yields, it is easy to be complacent and let cash sit. But with the Federal Reserve likely to begin cutting interest rates later this year—recent hot inflation readings notwithstanding—such high yields are likely to come down quickly.

To get ahead of Fed rate cuts whenever they may come, investment managers are looking to lock in yields for anywhere from one to five years to preserve today's higher income. "If you park in money-market funds, and the Fed at some point begins to lower policy rates, your yield is just going to erode quickly," says Thomas Urano, co-chief investment officer at Sage Advisory Services in Austin, Texas.

Bank certificate of deposits still may entice savers, but their rates are falling fast. Looking at Bankrate.com, banks that are offering CD rates of 5%-plus are only offering those deals for maturities of a year and one-half or less. CDs with terms of two years or more are sub-5%.

Depending on a person's risk tolerance, time horizon and financial plan, investors have several paths they can take. Here are four relatively low-risk ways to take advantage of higher yields.

1. Multiyear guaranteed annuities

MYGAs, as these fixed-rate annuities are known, can be a good option for savers who are looking for returns comparable to those on certificates of deposit but for longer periods. In addition to competitive rates, MYGA earnings aren't taxed until the money is taken out.

Terms range from two to 10 years, and unlike other annuity products, buyers can invest as little as \$2,500. For example, as of Feb. 14, ImmediateAnnuities.com listed a \$10,000 five-year MYGA from A-minus-rated Liberty Bankers Life for 5.4%, above the 4.6% top rate for a five-year bank CD listed on Bankrate.com.

James Sahagian, certified financial planner and managing director of Ramapo Wealth Advisors at Steward Partners in Ramsey, N.J., says these high rates spurred him to buy more fixed-rate annuities in the past year than he has in the 25 years he has been a financial adviser.

But they aren't for everyone and there are risks potential buyers should know about.

First, these are insurance-company-backed products and not

covered by the Federal Deposit Insurance Corp. Before buying these annuities, then, advisers say that investors should check the insurers' ratings and recommend that they stick with insurers rated A-minus or above. Ratings can be found on the different ratings firms' websites, such as A.M. Best, or through many states' insurance regulators.

Second, like most annuities, these products are illiquid and may have stiff early-surrender charges that eat up anywhere from 5% to 8% of the value. Buyers should invest money they don't need to access immediately.

2. Defined-maturity ETFs

These investments combine the certainty of holding an individual bond to its maturity with the transparency, liquidity and low costs of an exchange-traded fund. The funds generally pay monthly income, and when they mature, the ETF liquidates and the owner is paid the net asset value on the number of shares that are owned.

Christine Benz, director of personal finance and retirement planning at Morningstar, says she thinks these products are good for individual investors. "It can be really difficult to be diversified as a small bondholder buying individual corporate bonds, whereas this addresses that issue," she says of these ETFs.

Invesco and BlackRock dominate the area with their BulletShares and iBond funds. Both issuers offer ETFs for investment-grade corporate, high-yield and municipal bonds, while BlackRock also offers funds holding U.S. Treasuries and Treasury inflation-protected securities. The funds hold hundreds of bonds, allocated according to their effective maturity date. The diversification reduces the impact of default risk.

The nuances of how the ETFs invest the matured-bond proceeds once the fund is close to maturity differ slightly between the providers and the individual fund type. Generally, proceeds are invested in Treasury bills and/or cash until the fund matures at its predetermined end date, such as 2024.

Currently, Invesco BulletShares 2024 Corporate Bond ETF (BSCO) has a yield to maturity of 5.5%, while iShares iBonds Dec 2024 Term Corporate ETF (IBDP) yields 5.6%.

Investors can purchase a single fund, or buy several to create a typical bond ladder. The funds' fees range between 0.07% to 0.43% annually.

Ronnie Thompson, owner of True North Advisors in Northville, Mich., also appreciates that these are liquid, unlike individual bonds. "You would sell it at the coupon rate at the time, and there's no penalty. You may just lose out on some of the mature

interest," he says, if it is sold before the maturity date.

3. Preferred stocks

Preferred stocks, which are considered a hybrid between common stock and bonds, are another option for investors, says Steven Conners, founder and president of Conners Wealth Management in Scottsdale, Ariz.

He says preferred stocks become more attractive when overall inflation is falling and the Fed has a neutral monetary stance. "The interest-rate risk is diminishing over time, hence making preferred stock more appealing for income-oriented investors," he says.

Preferred stocks have a similar profile to long-term bonds as both have a par value (typically \$25 for preferred stock) and pay income. Preferreds also sit higher in the capital structure if a company liquidates, behind bonds but before common stock.

Investors interested in owning preferred stock can buy individual company shares, Conners says, or they can look to ETFs and closed-end funds. ETFs and closed-end funds offer investors diversification and potential price appreciation if rates fall. Closed-end funds issue a fixed number of shares when they launch and no new shares are created; they trade at a discount or premium to their net asset value throughout the day.

Conners says he has used Flaherty & Crumrine Preferred & Income Securities Fund (FFC), a closed-end fund with a yield of 6.9% and trading at a 11.9% discount. It uses leverage to boost its yield.

A popular ETF is iShares Preferred & Income Securities ETF (PFF), which has a yield of 6.5%.

Although preferred shares are less volatile than common stock, their prices will still move, so investors should accept that prices could fall. Omar Qureshi, managing partner with Hightower Wealth Advisors in St. Louis, says investors also must keep in mind that like corporate bonds, preferreds are subject to credit risk and duration risk. Duration is a measure of interest-rate risk tied to a bond's or bond fund's maturity, yield and other factors.

However, if rates fall, fund investors could benefit from price appreciation, he says.

To read the full article visit: <https://www.wsj.com/finance/investing/secure-high-yield-4-strategies-d663ba88>

Ronnie Thompson is owner and financial advisor at True North Advisors in Northville, MI. His overwhelming knowledge of the financial industry and dedication to each individual client helps him stand out above the rest.

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