

Investment Alternatives for a Topy Market

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Right now it is painful for investors with cash to keep it on the sidelines because it returns so little, both in money markets and in short term CDs. Still, the market is topy, so investing excess dollars in stocks or their equivalents such as exchange traded funds (ETF) could have its own set of problems.

One investor asks, "In what can I put my money now?"

This is a good question. Money markets and CDs aren't making money and don't have the potential to increase in value in the immediate future. Essentially, dollars placed there are dead. They are literally decomposing, i.e. losing value because they aren't keeping up with inflation. The only scenario where this wouldn't be true is if deflation takes hold, in which case a dollar would be worth more in the future than its current assessment. This is looking less likely, so deciding what to do with current cash-in-hand is a challenge. This is all the more true if a margin of safety is desirable so that there is some return whether the market goes up or down. Among the relatively few feasible options (not all inclusive) are some international currencies, US utilities, personal real estate, and lastly, certain collectibles.

First, let's go global. Though the dollar is paying almost no return, this is not true for all currencies. After the recent monetary crises, Australia has the highest yield in the West at 3.25%. Non-Australians can tap this currency in the form of an ETF. One example is the Currency Shares Australian Dollar Trust (FXA) which has a yield of 2.54% as of September 30, 2009. There are risks, however. One is that if other currencies increase their interest rates, FXA may not seem so appealing and investors may exit it for the better option. Then, its price per share would fall, though this could (but might not) be counteracted by a falling dollar which could make the green back return more stable.

Now, let's return to the US. Utilities, normally thought of as defensive, have not rallied as much as the market in our recent run up and thereby offer some downside protection. This is because generally what goes up the fastest goes down the quickest. In addition, utilities pay a healthy dividend. This makes them especially good for a retirement account, which is not taxed until the money is withdrawn or in the case of a Roth, not even then.

As an example, the Vanguard utility exchange traded fund (VPU) has rallied less than 10% in the last twelve months whereas the S&P overall has increased over 20%. Some of the S&P sector components have shot up as high as 48% (information technology) and 41% (materials). This means VPU likely does not have as far to fall as the higher flying index sectors if we do see another downturn. In addition, its relatively high 4.20% dividend as of September 30, 2009 offers income. On the other hand, in a continuing up

market it may remain stable compared to other alternatives.

And thirdly, let's go home. Another consideration is investing in real estate for personal use. For those previously thinking of buying a vacation home, there are bargains to be had compared to a year ago. For example, in some Florida locations, the cost of a condominium is one half what it was a year ago. If it drops further (and it may), the property can be purchased at a deep discount to earlier listings. This is an asset that can be used and enjoyed while waiting for it to appreciate. If it does, there are other options, one of which is selling it for a profit.

And lastly, let's consider buying something special for ourselves. For example, acquiring a special vintage wine that could increase in value has two possible outcomes. If it does pick up in value, it can be sold at a profit. If not, it could be drunk. Either way, the buyer feels less pain. Would the purchaser feel better too? This is the challenge for an investor in this toppy market: how to get return out of newly placed money no matter where the market lands.

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