

Savvy Consumer: Look for ways to improve investment income

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Industry watcher Bankrate has released its 2011 interest rate forecast, and the news is not pretty for savers or investors looking for income.

"CDs will see some market improvement in 2011," but not a lot, said Greg McBride, senior financial analyst at Bankrate, which tracks interest rates on banking products across the nation daily at its popular website, www.bankrate.com. "It will be a much better year than '09 or '10, but 2011 will still be a year of low returns on CDs."

Money markets on average will see even less of a rise, McBride said.

"Until the Federal Reserve Bank increases its rate -- and the Fed is in no hurry to raise its rates -- we won't see improvements in money market accounts," he said. "At best they won't get worse, which will be an improvement."

If it's any consolation, Fort Worth and some surrounding cities may now be home to one of the best money market account rates in the country.

Legend Bank this week launched a no-fee savings account called Saver that pays 1.25 percent average percentage yield (or APY, which includes the effects of compounding) on balances up to \$15,000, said Mike Monroe, president of the bank's Fort Worth branch at 3001 Western Center Blvd. "It pays more than anybody I've been able to find," he said.

A search at Bankrate.com confirms that Legend's terms are attractive. The only other bank that offered a similar rate is Discover Bank in Newcastle, Del., but that bank requires a \$500 minimum to open the account.

The average money market rate for the nation yields just 0.7 percent with an average minimum deposit of \$1,970, according to Bankrate. Locally, rates are even lower, averaging 0.27 percent APY, with Chase at the lowest rate of .01 percent for its money market account.

The new Legend product does have some strings, but one of them may be more attractive than the savings account. To get the new account, customers must sign up for Ultimate Checking, a no-cost checking account paying 3.75 percent APY on balances up to \$15,000.

Ultimate Checking at the bank has been around since 2007 and was featured in this column before. To get the top APY, account holders must use their debit card 12 times a month, have at least one direct deposit into the account and accept only online statements. Otherwise, the APY falls to .05 percent. The bank also says it will refund any ATM fees as long as the account holder meets the debit card and direct deposit requirements.

Monroe said Legend, a community bank based in Bowie with seven other branches in cities north of Fort Worth, has signed up 6,000 customers in the past 45 months.

"If you go to the big boys, you're going to see fee-based accounts now," he said. "This is still a free account, and we pay you interest. We have a whole different approach to our business model."

Such bank products may be a partial answer to investors weary of the stock market. Historically, the bond market has been the alternative for investors seeking less risk. After a multidecade run, however, even that's in question.

"A lot of investors strongly vested in bonds with the 2008 financial crisis and have done very well with over the last few years," McBride said. "But 2011 very well may be the year bond investors get a lesson in interest rate risk."

Bonds are generally considered a safe haven for investors because of their set returns and, often times, government backing.

But if interest rates climb, bond funds can actually lose value, he said, as low-rate bonds become uncompetitive with bonds paying higher market rates.

Because of that relationship, Fort Worth financial adviser Burk Rosenthal, a certified financial planner, will not put clients into long-term bonds right now, he said. Most people don't invest in individual bonds, but in bond funds that buy and sell packages of bonds, giving them a level of risk similar to stock funds, he said.

"A federally backed Treasury bond that you hold to maturity would be OK, but you have to hold it for 30 years to get all your money back," he said. "Let's say you have a Treasury bond with a yield of 4 percent and interest rates go up 1 percent this year and Treasury bonds go up to 5 percent. Why would anyone want to buy your bond?"

Rosenthal said he advises clients to instead look at short-term bonds, five years or less in duration, for conservative investors wishing to avoid putting a lot into the stock market.

"Short-term bonds aren't as much of an interest rate risk," he said. "You give up a little bit of yield and a whole lot of risk."

Just this week, Rosenthal said, he set up some new clients in their early 60s with a portfolio that was 20 percent stocks, 61 percent bonds with an average term of 1.79 years, and the rest in cash and even shorter-term bonds. He hasn't recommended CDs for 18 months, he said.

Other clients use real estate investment trusts (REITs) as an alternative asset class apart from stocks and bonds for small pieces of their portfolios, Rosenthal said.

But stocks historically will give you the best returns, he said.

One key to investing is to avoid making decisions based on emotions like fear or frustration, Rosenthal said.

"Investment decisions should not be emotionally driven," he said. "Studies show that emotions can lead investors to make bad decisions at the wrong time."

At the same time, a diversified portfolio that is rebalanced according to age of the investor and market conditions generally leads to good returns, advisers said.

"Whether they are 25 or 85 years old, investors should have a well-diversified portfolio of cash and bonds, but also stocks and REITs," McBride said. "A well-diversified portfolio is going to produce income from its performance."

[Note: The information contained in this newsletter is general in nature and should not be construed as comprehensive financial, tax, or legal advice. As with any financial or legal matter, consult your qualified securities, tax, or legal representative before taking action. CDs are FDIC insured and offer a fixed rate of return, whereas both principal and yield of investment securities do have risk and may fluctuate with changes in market conditions.]

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