

GUIDE TO INVESTING FOR INCOME

Even in an environment of low interest rates and inflation there are many different ways in which investors can generate a healthy income whilst minimising risk and preserving capital.

The purpose of this document is to outline in simple terms, the various options available to investors who are looking to supplement existing pensions or utilise savings to provide a regular stream of income over the medium to long term.

BONDS (FIXED INCOME)

Expressed in simple terms a Bond is a loan, an “I Owe You”- you are lending money to the issuer or borrower, and in return they are obliged to make interest payments on the loan, at preset intervals, during the lifetime of the loan, repaying the principal when the bond matures. The two main types of bonds that are most common are

- **Government Bonds** or Gilts; debt issued by sovereign states to raise cash- in this case the UK Government. Such debt is considered to be the safest form of bond.
- **Corporate Bonds**; debt issued by companies to finance expansion or development projects. They generally tend to offer higher returns than government bonds due to the higher level of risk.

COUPON & YIELD

The coupon rate is the annual interest rate that is paid by the bond issuer to the bondholder. The yield is the actual level of interest an investor may expect to receive if the bond is held to maturity.

WHAT IS A BOND FUND?

A bond fund is a pooled investment whereby a wide variety of individual government and or corporate bonds with varying maturity dates and coupons (annual interest rates) are pooled together to create one investment structure. The fund manager makes the decisions as to what securities the fund should purchase. The benefit of a fund is diversification, in that the fund will invest into many different individual bonds thus lowering the risk and volatility.

HOW IS A BOND RATED

The risk associated with an individual bond is governed by its rating- the higher the rating the lower the risk of default and vice versa. The highest achievable rating a bond can have is AAA. Bonds rated above BBB are known as investment grade bonds, and are issued by more solvent institutions or governments. The higher the rating the lower the risk; but conversely the lower the yield.

WHAT CAN YOU ACHIEVE FROM A BOND FUND?

Bond Funds can provide the following advantages:

- Capital Preservation: Bonds are significantly less volatile than equities, providing greater potential for capital preservation. They are also given higher preference to equity investors should a company go bust- bond investors get preference over shareholders.
- Regular Income; Bond funds can pay regular interest, which during an economic downturn could prove to be crucial in supplementing your income stream. This can be anything from 5% to 7%pa depending on the type of bond fund.
- Diversification; Bond Funds provide absolute diversification which is crucial in the design of any investment portfolio. Therefore, should a company default on its interest payment obligations it should not have an adverse effect on the performance of the overall bond fund, as more than likely the fund is invested in perhaps 30-50 securities. Remember, the older the investor, the higher the exposure there should be to bonds and therefore the less the risk.

STUDENT ACCOMMODATION FUNDS

Another asset class that can be used to provide income is a Student Accommodation Fund. It buys and builds student Halls of Residence in selected UK university campuses. Such asset classes have no correlation to economic cycles and have returned over 10% over the last 12 months, 33% over 3 years, and 57% over 5 years with almost 100% occupancy.

WHERE TO INVEST?

Kane Associates, through our research and compliance department, have put together a list of pedigree, top performing, and income-generating funds. For more information on our current range of recommended Bond Funds, please call us on **00 44 141 636 0055** or fill in the enquiry on our website.

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