

Investment Alternatives To An Overpriced Stock Market

Be you an institutional investor, a pensioner looking at your retirement portfolio, or a young 20 something looking to open your first retirement account, a problem facing all investors globally is that nearly every investable asset class is overpriced.

Due to:

- previous generations investing trillions of dollars into their pensions and retirement plans over the past four decades,
- central banks across the globe tripling their respective money supplies,
- as well as China's economic success creating an investor class bidding up asset prices globally.

The price of stocks, bonds, commodities, treasuries, T-bills, convertible bonds, preferred shares, derivatives, mutual funds, real estate, precious metals, industrial metals, REIT's, ADR's, collectables, scotch, even Bitcoin and cryptocurrencies have been bided up well beyond what their cash flows and intrinsic values warrant.

This presents a problem for all investors because as income accrues into larger and larger savings balances, the money needs to be invested somewhere, lest it lose its value against inflation.

But with prices so high, your rates of return are driven so low that you're looking at a mere fraction of a percent return on savings accounts, a paltry 2-4% on safe, quality bonds, and a pathetic 2% dividend yield from your average S&P 500 stock.

So Where Do You Invest?

The trick is not to look at traditional investments that we have been conditioned to invest in either through “Wall Street” movies, conventional retirement planning, or the tax incentives governments provide for officially sanctioned retirement plans.

It's to revisit PRECISELY what an investment is and look at our entire personal financial lives to see if there isn't some unforeseen or overlooked investment we missed. And when we do this, I think you'll find there are plenty of investment opportunities, many with lower risks and higher rates of return.

First, understand an investment has a rate of return. There has to be some kind of cash flow or profit it generates for its owner. Stocks pay dividends. Bonds pay interest. Real estate pays rent. These assets are investments because they generate (in theory) more money or “cash flow” over the course of their lives than what you paid to purchase them.

This differentiates these asset classes from commodities, currencies, or collectables since precious metals do not pay dividends, Yen does not pay interest, and baseball cards do not generate rents. These types of assets are merely SPECULATIVE in nature.

You buy them now in the hopes you can sell them for more later. But there is no underlying cash flow or profits they generate, therefore, in theory, they have no real value and are therefore NOT investments.

So with this understanding that it is cash flow and profits that make an investment, where else in your personal life can you find an opportunity to pay some money today to increase your cash flow tomorrow? And there are four general areas in most people's personal financial lives such a situation

exists:

Private companies/Entrepreneurship

Paying off debts

Real estate/rental property

Education/training

These investments may not have the convenience of merely setting up an online brokerage account and trading away or the tax-deductible blessing of your government, but they are mathematically, financially, and factually investments. Investments that can potentially provide better rates of return than today's financial markets.

Private Companies/Entrepreneurship

Just because a company isn't publicly traded on a stock exchange and conveniently purchased via a brokerage account, doesn't mean you can't invest in it. There are thousands of private companies out there, all of which need capital, and at times seek investors from the public.

However, usually they seek investments via "angel investors" or "private equity groups." This relegates investing in private companies to those of you who have significant sums of money, usually \$250,000 or more. Still, if you have such sums you may want to consider contacting a private equity group and seeing if they have some investment opportunities for you.

This could range from buying equity in a company (stocks) or lending a company money (bonds), or some kind of hybrid between the two where you lend the company money today and could become a part owner tomorrow (convertible bonds).

However, you don't have to be rich to invest in a private company. You can do yourself one step better. You can start your own company.

Entrepreneurship is, frankly, the best and most self-

respecting form of investment out there. If successful you will be your own boss, all the profits are yours, and if done right you will get much higher rates of return than you will in today's financial markets.

The only problem is starting a company is hard and takes some creativity, innovation and insight. Still, this doesn't mean you can't pursue some kind of entrepreneurial endeavor in your free time. And truth be told most forms of entrepreneurship are work you're already doing but on a contract basis or "moonlighting" on the side.

Programming, accounting, welding, even teaching dance classes after work is more often than not a better expenditure of your time and money and will yield higher rates of return than the paltry 2% dividend you can expect from the market.

Unfortunately (unless you make the company a tangible firm that could potentially be sold later, say like the copyright to a program), there is no opportunity for capital gains in these entrepreneurial endeavors, but again, an investment is NOT *"I hope to buy it now for \$X and sell it more for \$Y."* It is *"what kind of cash flow will my investment generate over the course of time."*

And I think you'll find self-employment a much more profitable option than your 2.5% government savings bond.

Paying Off Debts

I always get a kick out of my clients asking me "where should I invest?" when they are loaded to the hilt with debt.

Student loans.

Car loans.

Credit card debts.

Mortgages.

All with interest rates ranging from 4.5% to 23%.

So let me ask you this question:

What is the difference between investing in a bond that pays 4% or paying off your debts that charge an interest rate of 4%?

The answer is nothing. It results in the same cash flow. So paying off your debts is no different than had you invested that money traditionally in a stock or a bond.

But paying off debts provides one HUGE advantage over other forms of traditional investing. It's risk free.

Realize that when you invest in a stock or bond there's always the risk you won't get paid back, the company files for bankruptcy, or there some kind of embezzling or corruption that renders your investment worthless.

But when you pay off your debts it's 100% risk free because YOU'RE THE RISK. Your lender is taking the risk that you won't pay them back. So paying off your debts is quite literally the only risk free investment in the world.

Additionally, you're going to be hard-pressed to find a better rate of return than the interest you'll save paying off your loans. The lowest interest rates are typically mortgages at 4% or so. Highest interest rates are typically credit cards around 23% or so.

The stock market only pays a rate of return of 2% in dividends. Ergo, since most people have some form of debt, that is by far usually the highest returning and risk free investment one should make, and it should be made immediately before any other investments.

Real Estate/Rental Property

Though real estate has certainly been flooded with all sorts of money, both domestic and foreign, real estate does still

provide your average investor the potential for higher rates of return than the financial markets.

The key though is that whereas stocks, bonds, and mutual funds are largely susceptible to global economic forces, the individual investor does hold considerable sway and control over which specific pieces of real estate they will invest in.

You can choose whether to invest in a duplex or triplex. Storage property or a parking lot. Leasing farmland or and RV park. Additionally, it is much easier to analyze the profitability of a piece of real estate because most of the variables are either known or can be accurately estimated.

A bank will give you a quote on your mortgage. An insurance company will give you a quote on your insurance. Property taxes can be looked up on the internet. And a simple market study will tell you what your likely rents are.

With these variables you should be able to tell whether an individual property will provide the rate of return you need or not. And if it doesn't, it's merely a matter of finding a piece of property that does.

There are risks, however, with investing in real estate. Namely, people.

Tenants can be a nightmare to deal with as they destroy your property, fail to pay rent, even sue you if local laws favor tenants' rights over land lord rights. Because of this you may want to consider properties that do not house humans, but rather things such as storage facilities, parking lots, and garages.

Education and Training

Finally, there is education and training. One might be confused as to how going to college or learning a trade is an investment, but once again it is no different than paying

money now to increase your cash flow later.

And though there is a huge education bubble in the world, if you choose the right degree, profession, or skill, a \$20,000 investment today can increase your lifetime earnings by millions, even if you are currently gainfully employed.

The trick is to make sure it's an investment and not a hobby.

The United States is flooded with millions of young fools all majoring in English, Poetry, Communications, Women's Studies, Hispanic Studies, Sculpture, and even "Puppetry." All of which are hobbies, none of which are investments, let alone professions.

You need to look at fields such as engineering, programming, medicine, accounting, actuarial science, and other fields that are actually in demand in the real world and command a good wage.

And do not think it is only the "esteemed universities and colleges" where you have to fork over 4 years of your youth and \$75,000 of your money to earn a coveted degree. Trade schools, community colleges, programming bootcamps, even self-study and self-certification via (free) online classes like Khan's Academy and YouTube can provide you the skills you need to significantly increase your future cash flow, all well beyond investing the same money in a bond yielding a whopping 4%.

Look Inwards

The larger point of looking for alternative investments for your money is to focus on cash flow in your own personal life and your personal finances. Since very few people do this, and most eyes are focused on traditional forms of investment, you'll be surprised how many genuine investment opportunities there are right in your own backyard.

And while this isn't to say setting up an IRA or contributing to your pension account isn't a good idea, it is to say that you can improve your personal finances markedly, perhaps drastically to that of your regular, ole, ho-hum index-investing strategy recommended by today's conventional finance professionals.