

## Why can one still get 5% interest on a bond in this day and age?

"The measures taken by the central banks are becoming more intense. At an early press conference, the European Central Bank (ECB) already anticipated further easing of monetary policies in March. The real economy is reacting to this less and less. On Tuesday, the decennial Swiss reached a historic yield low, on 23.02.2016 it fell to -0.42% interest – an all-time low." (Source: Neue Zürcher Zeitung, NZZ, 24.02.2016, 07:00)

### 1. Negative interest "lowers" the returns of your bank and 3a pillar accounts

From the beginning of March, your bank account interest will decrease even further and you will continue to receive little or no return. Factually, this devalues your money.

Nevertheless, there are (according to the same article) apparent bond issues in the real economy, which still yield returns; we quote the Neue Zürcher Zeitung once again: "The premiere of the US biotech company Amgen convinced on the Swiss primary market on Tuesday. In this issue, everything worked, the growth story, the term, and the return, says an employee of the trust bank. The books were only open for 10 minutes for the largest transaction since 2010. One could have also placed a higher volume than CHF 700 million."

### 2. The real economy works regardless of negative interest

To understand why there are still bonds and other assets that have better returns in spite of negative interest rates, such as interest rates on bank accounts, you need to understand this sentence: the real economy yields returns regardless of the negative interest on savings books. You are all familiar with companies in your neighbourhood who can create jobs, manufacture good products, and get a decent price for them. Locally, these could be carpenters, real estate agents, specialised agricultural undertakings, or metalworking industries; internationally, these are well-known companies like Nestle, Apple, Samsung, or the like.

### 3. Such companies must be found

Those who, for example like the employees of VVK AG, consciously analyse companies and their products (bonds, etc.), as well as their business field and management, have a good chance of finding companies that yield good returns in the real economy with their reputable and comprehensible work. Biotech (like in the example of the NZZ article) is not exactly a field in which a layman can understand the business ideas. Therefore, we at VVK AG are looking for companies that have simpler business models and are at home in a market that non-financial experts can also understand.

If these companies have demonstrably kept their promised returns over years, we will check the members of the management for their reputation. To do so, we ask banks and other market participants. If we don't find anything negative here, then we evaluate the market in which the company operates, the prospects for the future, and possible risks. If we come to the conclusion that these risks are not higher than, or even lower than, other financial assets, then we will get in touch with the company.

#### **4. Personal contact with the product suppliers is very important to us.**

In the first discussions held with the persons in charge, we expand our knowledge of the company's market and learn about the administrative processes. If the chemistry's also right with the persons in charge, then the decision is made to offer the product to our customers so that they can profit from the higher returns.

#### **5. Currently, the positive future of the German real estate market is convincing.**

According to the German Minister of Justice, at least two million apartments are currently lacking in Germany. Berlin has a particularly significant housing shortage; alone in Berlin, 300,000 units are lacking according to media reports. It's hardly possible to build this living space in the next five years because of a lack of craftsmen and specialists in Germany who can build on such a large scale in such a short time. That's why, since 2014, we have been looking more closely at the apartment suppliers in Germany.

We made the decision to collaborate with a real estate company that has been in the business for 32 years, has around 18,000 apartments worth €1.5 billion at nine locations, and offers comprehensive assistance from buying an apartment, through to management, all the way up to the sale. Furthermore, more than 10,000 investors got back their interest and the capital they invested in all these years. Being led by professionals who complement each other in their activities, but also oversee one another, such a company in such a market has extremely promising prospects to be able to pay out the promised interest of 5%.

You don't have to be a financial expert to recognise that there really are opportunities like this. Especially homeowners can quickly understand that over the years, the purchased properties (apartments) can increase in value and the rental revenue during the holding period provides a constant source of income, which pays the investors' interest. For us, everything was as it said in the article of the NZZ: "Growth story, term, and interest rates". In this case, the bond will be repaid in just four years!

This is how investment gems of practically unknown product suppliers are constantly found, which, thanks to their business activities in the real economy, can pay their investors significantly more than a "decennial Swiss" rate of interest over years.

#### **Willy Graf, lic. iur. HSG**

Owner of VVK Vorsorge- und Vermögenskonzepte AG, Teufen/AR, provision expert. The owner of VVK AG was the founding lecturer for financial planning at the Institute for Financial Planning IfFP. He is the President of the VALIDITAS Association of Swiss Financial Service Providers (VALIDITAS Fachverband Schweizer Finanzdienstleister).

He developed the consulting concept for individual provision planning and asset management for the members of large partner associations at favourable and clear prices. Since 1997, he and his team have been advising families, individuals, institutional investors, and pension funds with neutral and independent recommendations for provision, investment, and tax optimisation. Through several thousand visits and consultations, Mr Graf has accumulated a wealth of experience, which he passes on to his customers and competitors in the extensive VVK AG training.