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Signature Estate & Investment Advisors LLC
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"With rates near zero, is inflation a risk, and where do I get 'safe' yield?"

By Gary K. Liska

In past downturns and times of economic uncertainty, investors could sit on the sidelines, keep pace with inflation and protect their purchasing power. No more. In 2006 a $100,000 six-month CD earned an annual income of $5,200. Today, that CD earns $419. That is not a misprint: $419.

The Federal Reserve recently suggested that it intends to keep these rates low until 2014. That means central banks will most likely maintain accommodating rates and policies for an extended period of time. If you do a simple calculation and figure in even modest inflation, you, as an investor, are earning zero to even negative real interest rates.

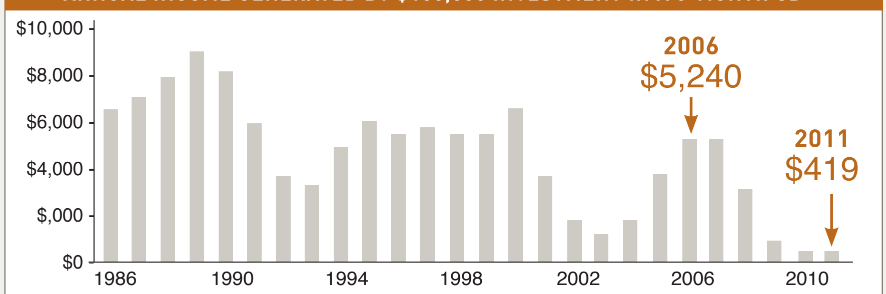
Looking at the present: What can you, the investor do? First of all, do NOT chase yield without understanding the inherent risk involved. Stay short-to-intermediate with maturities, and have a "quality bias" to your security selection.

Remember, even during this extended period of ample uncertainty, there are some certainties—to begin, rates will stay low for some time. So here are some actionable investment ideas for today.

ILBs (inflation linked bonds) or TIPS (treasury inflation protected securities): These should be the foundation of your fixed income strategy, hedged for inflation. There are several ways to invest along the yield curve and manage duration. Issued by sovereign governments, ILBs and TIPS are designed to protect investors from inflation.

Short-term corporate bonds: These offer attractive yields, which tend to be higher than comparable government debt, and many have outstanding balance sheets and near-term stability.

ANNUAL INCOME GENERATED BY $100,000 INVESTMENT IN A 6-MONTH CD



Source: J.P. Morgan Asset Management. Data are as of 3/31/12.

Floating rate bonds: These provide attractive risk-adjusted return potential, particularly during a low-to-rising rate environment. They also offer short maturities where the income "floats" with the market and can offer protection when interest rates rise.

Emerging market currencies/bonds: Emerging market (EM) countries largely offer attractive yields, better growth prospects, demographics and fiscal positions. However, there is currency risk, and we advise holding them in dollar-denominated vehicles vs. owning them in local currency debt. As the number of "safe havens" continues to dwindle, we believe investors will increasingly recognize the relative safety of EM sovereign debt.

High-yield bonds: This is riskier corporate debt with very attractive yields and low duration, but they can be good investments as corporate profits/balance sheets improve with the economy.

Looking ahead: Make future inflation a central theme in discussions of portfolio construction. Walking the tightrope between inflationary and deflationary economic forces is one of the biggest challenges for investors. Inflation is one of the few "solutions" to combat the developed world's massive debt problems. We expect Inflation to be modest but to rise over the next three to five years. A key driver of inflation is the printing of money by central banks. As stated in our previous *Worth* articles, increased dollars in circulation (i.e., devalued currency) force trading partners to pursue their own inflationary policies.

As the concern for inflation intensifies, you will need to consider longer-term risk assets that produce income. These should include REITS, MLPs, dividend stocks and convertible bonds. Also start considering gold and certain commodities. Build your strategy and "wish list" to take advantage of "pivots" in investor risk. Also, spend extra time understanding risks and your volatility tolerance, that is, what you are willing to miss out on by protecting principal, versus what you are unwilling to lose.

When uncertainty wanes, be ready for the potential pivot to inflationary pressures and rising interest rates, as the $9 trillion in cash that is now on the sidelines begins to move.

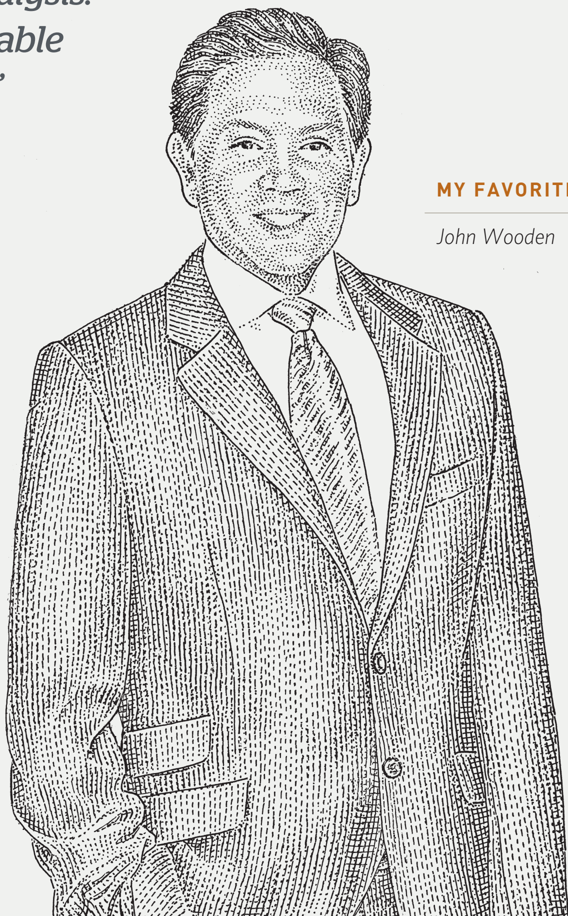
In summation, uncertainty does not and should not translate into "investor paralysis," meaning doing nothing. As we have seen, there are actionable solutions today.

"Uncertainty does not and should not translate into investor paralysis. There are actionable solutions today."

—Gary K. Liska

How to reach Gary K. Liska

Please call my office at 310.712.2331 *to schedule a meeting, either over the telephone or face to face.*



MY FAVORITE COACH...

John Wooden

I NEVER LEAVE HOME WITHOUT...

Kissing my wife and newborn son

MY GOALS FOR THIS YEAR INCLUDE...

Improving my culinary skills

About Gary K. Liska

Gary K. Liska has been in the financial services industry since 1994 and is a founding partner of SEIA. Less than 15 years after its inception, SEIA reached the milestone of $2 billion in assets under management. Mr. Liska is a Certified Financial Planner and holds a master of science degree in financial services and is a core member of SEIA's investment committee. He specializes in comprehensive wealth management strategies for individuals, as well as corporations. Mr. Liska recently completed the AIF (Accredited Investment Fiduciary) designation.

Assets Under Management
$300 million (Liska)
$2.3 billion (Firm, as of 6/30/12)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)
$5 million (Private Client Group)

Largest Client Net Worth
Confidential

Financial Services Experience 19 years

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodians for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Investment advisory and money management services, private client wealth management, corporate retirement planning, estate planning, insurance planning and philanthropic planning

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ILLUSTRATION BY NANCY JANUZZI

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