A KMI report dated May 2014

# The stability case for higher return Corporate Bonds (CB's)

**What are the guidelines for KMI's selection of  CB's ?**

A) 3 main currencies, Euro Sterling and US$
B) Returns (yields) expected 5%-11% per annum.
C) Ratings AA to BBB
D) Institutions selected by KMI and put on our web site offering the CB's will be considered as Major international companies (household names).
E) KMI will take advice and carry out due diligence prior to listing CB's on our web site.
F) WH Ireland (established 1872) - http://wh-ireland.co.uk/ assist KMI in our research of CB's
G) Length of CB (years), these can general be between 3years and open ended (Perpetual) terms.

**The current market conditions;**

At the time of this article (May 2014) there exists a world economic climate that has never been seen in recent history, if ever. This relates primarily to the huge amounts of printed money, known as Quantative Easing (QE), that has been pumped into the major western economies since 2008. The effects of this are many but particularly as follows;

- Emerging economies have generally suffered from lack of business from these Western Economies
- Western Banks, the recipients of the QE, have virtually ceased lending to smaller companies thus starving the western economies of growth.  The resulting volatile stock markets make equity investing riskier.
- Interest rates on deposits are at all time lows, making fixed interest investors look elsewhere for their income.
- Governments (European and American) borrowing is at all time highs in both value terms and expressed as a % of GDP, the cost of servicing this borrowing even at the current 0.5% interest base rate is costing around 17% of their respective total tax receipts. Accordingly this situation alone restricts any serious attempts to increase interest rates even to control inflation.

**Conclusion;**
Concerning investing in CB's the last 2 points above are conclusive proof that the likelihood of any serious interest rate rises in the foreseeable future (3 ++ years).

Accordingly if the previous paragraph is true it follows that Corporate Bonds, of the type described in this document, will remain the only type of safe (relative to other investments) fixed interest instrument available giving a reasonable return.

**Other advantages of Corporate Bonds;**

No buying-selling charges apart from minimal dealing costs.
No commissions or on-going management fees
Daily dealing on secondary markets ensuring access to cash and liquidity of asset, keeping prices buoyant.
May be held in an offshore wrapper (Skandia and others) where no tax (at source or otherwise) is deducted.
Income (yield) is guaranteed by institution.
Capital is guaranteed by the respective institution, returned at term end or special event*.

RISK; Respective institution becomes insolvent then capital can be partly or wholly lost.
*In the event of insolvency, CB holders are paid ahead of shareholders providing assets exceed debt of institution.*

*Produced for KMI by Lee R J Green CertPFS*

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