Investing Beyond The Stock Market

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While the stock market can provide significant long-term returns for investors, it also carries material risks, as demonstrated by the recent huge market swings resulting largely from the coronavirus pandemic. For those seeking more security and reduced risk, however, there are a number of other traditional investments that can help mitigate some of your portfolio's total volatility. Below are some examples of investing beyond the stock market.

Savings Bonds

As debt securities issued by the Department of the Treasury and backed by the full faith and credit of the U.S. government, savings bonds carry extremely low risk for investors.

There are two types of U.S. Savings Bonds available: Series EE and Series I. Both are sold at face value and accrue interest which is paid at maturity, but both also carry penalties if redeemed within the first five years after purchase. However, while both types of bonds are initially issued with a fixed rate of interest, Series I bonds are actually indexed to inflation, so that their interest rate is potentially adjusted to compensate for a loss of purchasing power up to twice per year.

You can purchase anywhere from $25 to $10,000 in savings bonds each year, and can defer federal taxes on the interest until you either redeem the bond early, or it matures. In addition, you do not pay local or state taxes on the bonds' interest. To learn more about investing beyond the stock market with U.S. Savings Bonds, visit TreasuryDirect.gov.

Treasury Bills

A Treasury Bill, or T-Bill, is a short-term debt obligation that is also issued by the Department of the Treasury and backed by the full faith and credit of the U.S. government. While savings bonds are longer term investments, T-Bills have maturity dates of one year or less, making them a more popular option if you are seeking to manage liquidity.

T-Bills are usually sold in denominations of $1,000 at a discount from the face value (or par amount), which is the value received if held to maturity. Their return, or interest earned, is thus the difference between the value paid for the security and the amount received in return upon maturity. T-bills do not pay periodic coupon payments.

Annuities

If you are interested in investing beyond the stock market while still accruing a steady stream of retirement income, an annuity could be another option. Annuities are a type of insurance product that represents a contract between you and an insurance company. You pay for an annuity up front with a lump-sum or series of payments, and in turn receive payments based on some sort of reference rate over time.

That being said, like other retirement planning options, you must be at least 59 ½ years old in order to withdraw funds from an annuity without penalty from the IRS.

There are three types of annuities: fixed, variable, and indexed. Fixed annuities pay out a guaranteed amount, while variable annuities' disbursements are determined by the performance of their underlying investments, and are subject to change. Indexed annuities, alternatively, provided a guaranteed minimum payment, but part of your return is tied to the performance of some market index. You can learn more about the different types of annuities at Investor.gov.

Before buying an annuity, it is important to consider the tax implications of this type of investment, along with their fees, which can often be somewhat difficult to fully determine, and can include layers of various commissions. Annuities accrue on a tax-deferred basis, but your disbursements will be subject to income tax, rather than the lower capital gains tax that applies to many other investments. In addition, the money you put into an annuity is not tax-deductible.

Real Estate

Real estate has historically proven to be a popular long-term investment for those looking for asset growth or steady income, but as with any investment there is risk involved, especially for investors with shorter time horizons. There are a wide array of potential real estate investments and each carries its own risks and benefits. Whether investing in rental property, or buying and flipping a residential home, it is important to fully understand local market conditions and the potential costs involved before investing in a property.

For those who want to invest in rental property without the headaches of being a landlord, Real Estate Investment Groups (REIGs) may be an option. When a company purchases or builds an apartment building or condominiums, they sometimes allow investors to purchase units through an REIG. The investors then rent the units to prospective tenants themselves, but the REIG takes care of all maintenance and other management responsibilities in exchange for a percentage of the rental income.

Real Estate Investment Trusts (REITs) are another popular, and simpler, way to invest in real estate. A REIT is a company that owns or operates income-producing properties or infrastructure, while allowing investors to buy shares of its portfolio. Many REITs are publicly traded, meaning their shares can be bought and sold just like stocks. For this reason, REITs are often preferred by those seeking greater liquidity in their real estate investment. That being said, publicly traded REITs are also more subject to volatility associated with the broader stock market.

Precious Metals

Precious metals, especially gold and silver, are some of the oldest and most consistent investments around, primarily as a hedge against inflation. However, more recently the prices of gold, and to a lesser extent silver, are often driven by market sentiment rather than industrial demand. While historically precious metals have been recognized as an investment that will retain its value in periods of financial market duress, the availability of more liquid investment alternatives into these spaces (known as exchange-traded funds) have, like publicly traded REITs, subjected their prices to higher volatility than was once the case. They can, however, often still add a layer of diversification to an investor's overall portfolio.

Aside from the aforementioned exchange-traded funds, there are a variety of other ways to invest in precious metals, including futures and options, holding physical bullion, or even through indirect exposure by owning shares in mining companies. Choosing the right option for you requires research and a clear understanding of your risk profile and investment goals.

Seek Professional Advice

There is no "sure thing" when it comes to investing beyond the stock market, but a disciplined approach and guidance from an experienced investment professional can help you diversify your portfolio and mitigate risk. To learn more, contact The Private Bank at PlainsCapital today, which employs an experienced, in-house team of accredited investment professionals to help you make sound financial decisions in line with your overall investment goals.