KMI Consultants

KMI EXCLUSIVE NEWSLETTER

21st November 2012

Dear Clients and Investors

This newsletter is devoted entirely to one subject. The reasons for the increase in value of what would be expected to be a very non fluctuating safe asset; I refer to blue chip, bank corporate bonds.

The reason for this subject this month is because a number of our clients have queried why their holding in these bonds during the last year, have increased by around 20%. No bad thing you might say, and this is in addition to receiving income. They also ask; if given this increase, it is still a good investment to make at present.

To answer the question and confirm that it is certainly a good investment to make today and even safer than it was one year ago, we have to consider history, not ancient history, but just back to 2007, the financial crisis!

During 2007 and 2008, banks, and by this I mean most all of the household named banks we use today, Barclays, HSBC, Citibank, LloydsTSB, Deutsche Bank, Goldman Sachs etc. had become embroiled in the lending market and up to their necks in toxic assets. They had given up the practice of keeping sensible capital adequacy (liquidity) in favour of insuring loans. In short, they were bust and had to be bailed out by their respective governments (public purse).

Thereafter QE or "Quantitative Easing" came into being. Unlike Lehman Bros, most top banks survived and have been the beneficiaries of QE ever since.

Banks received this public money in order for them to spread loans among industry and other deserving businesses, the purpose being to inject much needed cash into the world's economies. In the USA the process of QE resulted in the government obtaining in return, toxic loans from the banks, thus improving the respective bank's balance sheets. In the UK and Europe this was not quite the same, but banks still received QE from governments. In the UK alone this QE exceeds £1 trillion.

At the same time as the above was going on, governments decided to limit their banks risk lending, they insisted on unreasonably high levels of capital adequacy given that, at that time, their banks' balance sheets were effectively shot to pieces.

This was particularly painful in Europe, including the UK where it became almost impossible, and still is, to obtain loans for business or indeed higher percentage loans for domestic property.

So, given the above, where you may ask has all this QE gone, trillions of Euros, Pounds and US$?

Easy answer; the banks have much of it on their balance sheets and have rid themselves of toxic debt by selling it or writing it off, this all means one thing! That major banks are in much better shape today than they were four years ago, thus the value of their debt, often government owned (public really), has risen in value and come under greater purchase demand.

Two other aspects of this have occurred. Firstly, other institutional debt (corporate bonds), blue chip companies, have had their debt upgraded and become much sought after in the light of very low interest rates across Europe and the USA.

Secondly, and to answer the question of: "Are corporate bonds worth buying now?" In the scenario where governments are continuing with QE because they have no option in the current world economic circumstances, banks will be the prime beneficiary; their bonds can only rise in terms of security strength and the value of their debt (corporate bonds) will therefore also rise.

For your further information, there is no commission paid on corporate bonds, the only cost in the buying and selling of these assets is the small stockbroker charge. I mention this to reinforce my company's belief these are excellent assets for our clients.

Next newsletter we go back to the normal format of various investment assets and general information regarding markets. I hope you enjoyed this one!

Happy investing

Lee

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New site http://corporatebonds.kmiconsultants.com/

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