*Investing in an Ultra Low Interest Rate Environment*

**REAL MONEY column for The Santa Fe New Mexican**
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If you are having trouble figuring out how to make a decent income from your investments in today's markets, join the crowd. With interest rates next to zero, even normally useful vehicles like corporate and municipal bonds are paying such paltry rates that professional investors are scratching their heads about what to do.

Retirees living on fixed incomes such as social security and pension plans are caught in a vice grip of extraordinarily low cost of living increases combined with higher real costs for high end goods and services. Students are seeing their portion of tuition payments rise. The government seems concerned about deflation, which means that interest rates are unlikely to rise anytime soon, unless the markets freak out and people get concerned about sovereign nations refusing to make good on their debts.

As working people know, real wages have stagnated for several years now. I think most people instinctively understand that due to the huge number of people whose homes are worth less than they owe on them, real estate prices are likely to fall further as delinquencies among even good quality borrowers will rise.

What can you do when high quality bonds are paying 2% for 5 years…buy junk? The low quality or junk market has boomed over the last two years. In a desperate attempt to keep pace with the real costs of living, which in my opinion are still going up, unaware investors are flocking to anything that promises a steady and decent income. Be aware of the dangers of junk bonds, long term bonds, bond funds, annuities, really anything that promises a passive return of over 4%. If it sounds better than that, it probably has a downside you don't understand.

Small investors should keep in mind that, due to unprecedented low rates of interest forced on the market by massive government intervention; we are in a bond market bubble akin to the tech stock mania of the late 1990s. Stay away from long term investments that you don't thoroughly understand because by gosh and golly, there is going to be blood in the streets sometime over the next few years. My advice is to stay short term and be vigilant about the price you pay for income investments, be sure that you know how to exit even short term funds as things start to turn around in the economy because the loss of principal is a terrible thing, especially to folks who need every dollar they have saved.

In an ultra low interest rate environment, stocks should do great, but they haven't. Stock returns are bound within a +7% and -7% range and for good reason: most rely, either directly or indirectly, on consumer spending to return to 2007 levels. I doubt this will happen for a very long time.  One exception to this is high dividend paying stock, those yielding 3% to 6%.  While dividends are not guaranteed by companies and stock prices can fluctuate, you can research and find ones that have never cut their dividends in bad times and those whose company policy is to put shareholder dividends above executive pay.  It takes a bit of digging but is well worth it because whether we have inflation or deflation, some companies will pay steadily increasing amounts if their business is global and they are not burdened with too much debt.

My last piece of advice for this month has to do with private real estate.  When times are tough for debtors, they are ripe for people with cash.  If you really know a local market, look for bargain sales of leased up property which provides a 6% to 16% return from day one.  To achieve these returns, you may have to arrange for repairs, get management in place to handle tenants, or hassle with former lenders.   In the end, if you can stabilize a bad situation that someone else is abandoning, you have the opportunity to pick up a rough stone and turn it into a gem.  Sorry folks, there are no easy ways to do this over the Internet.  Ol' fashioned hard work and patience is coming back, perhaps to stay.

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