6 Safe Investments for P&Gers

We added an extra one for you!

Covered Calls (we use with clients who own P&G stock)

A "covered call" is an option strategy. It's widely considered the safest option strategy and has been shown to lessen volatility and may aid market returns. The strategy involves selling a call option for a stock which the client already owns.

Pro: Selling a call against an underlying stock can provide income and downside protection.

Cons: Using a covered call obligates the investor to sell the stock at a set price (usually higher than the current price). So, it's possible the investor limits their upside potential if the stock rises quickly. Second, the investor owns the underlying stock (in this case P&G stock). So the client does have the risk of loss of principal if P&G stock declines. If this isn't safe enough for you, you can always move on to the next two investments, Treasuries and CD's. These are definitely safer….

Short-Term CD (we currently use with P&G clients)

Note: We are able to invest in multiple CD's, each with $250,000 FDIC insurance, in one brokerage account. Ask us HOW!

A short-term CD is widely considered to be an extremely safe way to earn interest, at least up to the FDIC limit of $250,000 (per depositor, per FDIC-insured bank, per ownership category).

Pro: If you invest in a CD and leave the money in the CD until the term ends, the bank promises to pay you a set rate of interest over that specified term.

Cons: There are three downsides: 1) if you remove the funds early, you'll typically lose some of the interest you earned. Some banks will also hit you with a loss of a portion of principal; 2) You are only FDIC-insured up to $250,000. Beyond that, you could be at risk if a bank were to become insolvent; 3) Finally, there is reinvestment risk. If rates go down during the term, you will be reinvesting at a lower rate when the term of your CD ends.

<u>Treasury Bills, Notes, Bonds</u> (we currently use with P&G clients)

The US Treasury issues debt to fund projects and government operations. This debt is issued in the form of Treasury bills (which mature in up to 1 year), Treasury notes (which mature from 2-10 years) and Treasury bonds (which mature in more than 10+ years).

Pro: These are the safest investments you can make. Government Treasury bonds are backed by the full faith and credit of the United States. The US has never defaulted on its debt obligations. If you hold a Treasury to maturity, you are virtually guaranteed to realize the stated return. These also are very liquid and trade in large quantities, making it easy to exit a position if you so choose.

Cons: If you sell out of a Treasury early, especially a Treasury of longer duration (2 to 30 years), you might experience loss of principal if interest rates have moved up during the period when you own the bond. Separately, as with other investments that you make for a set period of time (e.g. CD), there is reinvestment risk since rates could move down by the time the Treasury matures.

<u>Money Market Funds</u>

Money Market Funds are pools of CD's, short-term bonds and other low-risk investments and are sold by brokerage firms and mutual fund companies.

Pro: Money market funds are liquid. Usually you can access your funds the same day, or at least within a day or two. You buy and sell these like any mutual fund. As soon as the cash settles into your account, you can remove the cash.

Cons: Money market funds are generally considered to be safe. However, in times of extreme market volatility, they have proven to be less liquid. This happened in the housing crisis of 2008 and again when the COVID pandemic hit in March, 2020. Because they are liquid, the rate tends to drop quickly as the rate on Treasuries drop. Said another way, locking in a return for any length of time isn't feasible with money market funds.

<u>Series I Savings Bond</u>

A Series I savings bond is an inflation-projected government bond investment.

Pro: Series I savings bonds are structured to pay you a combination of a fixed interest rate and an inflation rate. As of the summer of 2023, the rate is 4.3%. The fixed rate is just that, it's fixed. The inflation rate can and often does change every 6 months based on inflation. This theoretically protects you from inflation, which otherwise erodes your purchasing power. These bonds can be purchased from Treasury.gov.

Cons: There are a couple downsides: 1) The Treasury.gov website isn't the easiest to use. More importantly, 2) if you hope to stash a big chunk of cash, you are out of luck. In one calendar year, one

Social Security number or Employer Identification Number may only buy up to $10,000 in electronic I bonds, and up to $5,000 in paper I bonds (with a tax refund).

Fixed Annuity

An annuity contract pays a certain income over a time period in exchange for an upfront payment of money. The annuity might pay for a set period of time (e.g. 10 years) or until death.

Pro: A fixed annuity can provide guaranteed income and return, giving you greater financial security. An annuity can also offer you a way to grow your income on a tax-deferred basis.

Cons: Annuity contracts are complex and often involve high-pressure, commission-based sales people. Sometimes a person thinks they are getting a specific investment return when really a part of the money being returned to them is their initial principle. Oftentimes the actual return on the annuity is very low, rising only after the contract has been in force for many years. Annuity contracts are illiquid, making it hard to exit one without incurring a significant penalty. Finally, in an inflationary environment, a fixed payout loses purchasing power.

Income Producing Investments That Don’t Meet the “Safest” Criteria:

- Corporate Bonds - Like Treasuries, they pay an interest rate on the investment you make. However, there is a risk of default if the corporation is unable to meet its obligations.
- Dividend-Paying Stocks - Dividend paying stocks are often outstanding components of a diversified portfolio. A company that pays a dividend usually has strong cash flow. However, the stock price can go down dramatically, leading to significant loss of principle. A company can also fall on hard times and cut the dividend, which usually isn’t guaranteed.
- Preferred Stock - Like a bond, preferred stock makes a regular cash payout. Preferred stock is safer than stock but generally riskier than a bond. The cash payout can be cut and the value of the preferred stock fluctuates, and can go down.

If you have any questions, feel free to call/email/text Jared Kline.

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Kellett Wealth Advisors

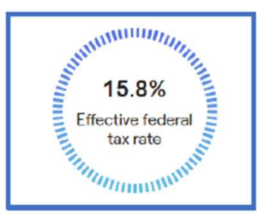
KELLETT
WEALTH ADVISORS
PLANNING PAYS DIVIDENDS

Financial Planning

- ✓ Get to know you
- ✓ Snapshot of current path
- ✓ Build a plan to help you succeed in meeting your goals

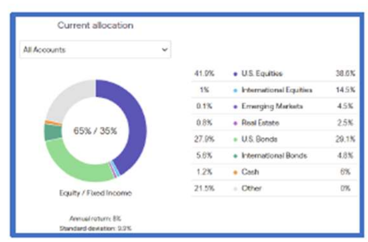
Tax Planning & Preparation

- ✓ Help you understand current tax rate
- ✓ Prepare annual tax return
- ✓ Build tax saving plan



Investment Management

- ✓ Build a portfolio to deliver success
- ✓ Maximize return while minimizing risk
- ✓ Portfolios are built to your risk tolerance and time horizon



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