“A 5% return, just to survive”

Thank you to everyone who wrote in about our special income project. It really struck a chord.

Remember, this is something we’re developing in response to cries for help from a certain portion of our readership: people who’re suffering on the wrong end of zero interest rates and government intervention, **and need to find a reliable source of income.**

I outlined the context to this in last week’s letter. But the short version is, extremely low deposit and annuity rates and a welfare system you can’t put your faith in are problems that *aren’t going to get better soon.*

If you’re retiring in the next ten to 15 years, you need to figure out how to generate income in this environment now. Don’t assume things will “normalise” and rates will suddenly go back up to 5%. Chances are they won’t. You need a solution and you need it now.

I knew this was a big problem. But the number of replies in the *Capital & Conflict* mailbag proved just how many people are affected

Take this note, for instance:

> *Yes, that’s me. 55 years old and now needing to work beyond 65 AND get consistent growth each year without there being a major correction AND be able to afford the same level of contribution until then (unlikely as I expect income to decline) AND needing to get a 5% return just to survive.*
>
> *The blame must be split though:*
>
> - *me for not saving more when I was younger (and for a few years, earnt more)*
> - *Govt/Central banks for loose money*
> - *greed and hubris (dodgy loans, derivatives, etc)*

I think that’s a decent analysis of the problem. And yes, we’re probably all guilty of not quite saving as much as we could. But really it’s a story of living in a system that has been distorted to transfer wealth from savers to borrowers.

More than that: the people who control the system are either massively indebted themselves (government) or make money when people borrow (banks). Borrowing in itself isn’t always a bad thing. But when the system is twisted to favour one group of people so heavily against another… it’s hard not to feel angry.

Not everyone shared that view though. Take this note:

> *Current retirees have had*
>
> 1. *Advantage of being brought up inculcated with the values of their (wartime) parent’s values…. I.e be careful with money don’t over-borrow, work hard, save for a rainy day….*
> 2. *Free education including university*
> 3. *A good choice of good jobs on leaving uni… with training, security and usually fat pensions*
> 4. *An incredible tax-free appreciation of home property prices (200+ times in my case from 1970 until now)*
> 5. *So as long as they (a) have been frugal (b) avoided divorce or (c) avoided vanity projects or pastimes they SHOULD have stacks of cash to support their retirements….*

Hmmm. I’m 50/50 on that one.

Self-reliance and taking control of your own life and future is probably the single most important principle when planning for retirement. In fact it’s true in everything. Take responsibility for your own decisions and don’t rely on the government, or anyone else to have your back.

But there’s another element to all of this. Lots of people who’re staring down the barrel of a much poorer retirement *were* careful with money. They didn’t over borrow. They did save for a rainy day.

The problem is that state intervention in the market warped the system to mean those savings wouldn’t return as much income as they’d once thought. Where ten or 20 years ago a £250k pension pot might have provided a decent – if not extravagant – income, today it’ll likely provide half that. Perhaps even less.

That’s the injustice. It’s like a football team believing it needs three points to win the league, then being told in the 89th minute it actually needs six.

By the way, Tim Price and I talked about this idea on camera on Monday. Tim was outlining what he sees as a major threat to the wealth of every single investor in the country this year – whether you’re retired or not, and whether you invest in stocks, bonds, property or anything else.

I’ll share Tim’s warning with you next week. Look out for it.

But here’s a preview: it comes down to the fact that the people “in charge” of the economy fundamentally misunderstand it. We call i the machine metaphor: thinking of the economy as a machine with levers and pedals and gauges that can be operated to make it run faster. Of course the economy isn’t. It’s much closer to a natural ecosystem, made up of the free decision-making of millions of people.

In the machine economy, you become a cog. The state becomes the operator. It’ll pull whatever levers it can to try and make the machine run the way it wants. If that destroys a cog, so be it – the machine itself is more important.

So what can be done?

Is there even an answer to the great income crisis? Where can you generate the income you need today?

Well, some people certainly believe it’s impossible:

> *Your newsletters must be falling on deaf ears. No one believes it is even remotely possible to get a basically decent return on capital of even 4%.*
>
> *To get 18 or 20% you had better start thinking of robbing banks … if there is any money left in the worn out old safe which soon won’t be worth locking at night because the money won’t be worth protecting. Instead of ‘pick-your-own’ it might be ‘print-your-own’.*

I think 18%-20% is out of the question.

But 4%… even 6% or 7%… *is* possible.

At least according to one of our experts here at Southbank Investment Research. When we asked our team how to generate a big, reliable income today – he came back with an unusual response. It doesn’t involve traditional stocks, bonds or commodities. And it doesn’t involve trading options or anything like that.

It’s an alternative source of income that could – could – be the solution to this problem. I want to find out. And I want you to help. I’m setting everything up so that we can put our expert’s idea to the test in real time. If he’s *right*, you could see the results (large amounts of investment income) materialise in your brokerage account this year.

I’ll share details on how to get involved in that project as soon as I have them. It won’t be long. Keep your eyes peeled!

Until tomorrow,

Nick O’Connor

Nick O’Connor
Associate Publisher, *Capital & Conflict*

PS I’m still interested to hear your stories on retirement and how you’re approaching the income drought. It’s a big problem that I’m trying to help solve for readers. The more information I have, the better. My email address is nick@southbankresearch.com.

Category: Central Banks, Economics

Share this article:

-
-
-