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Putting cash to work

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It's currently hard to achieve any meaningful returns with fixed-income investments in Swiss francs. Those who want to put their cash to work should consider stable dividend stocks combined with a covered call writing strategy.

With the recent 25-basis-point cut in the key interest rate, the Federal Reserve has resumed its cycle of rate reductions. We expect that this first step, after more than a year's pause, will be followed by further rate cuts. As a result of this shrinking interest rate advantage, the US dollar is likely to remain under pressure in the coming months. Further appreciation of the euro and Swiss franc against the greenback may also weigh on the interest rate environment in Europe going forward. Currencies that tend to strengthen will likely continue to push inflation downward in an overall rather modest growth environment.

In Switzerland, the interest rate environment is now almost completely flat. Looking at the yield curve—which connects the yields of government bonds with very short to very long maturities—the profile resembles that of the Netherlands more than that of an Alpine country. The average level of the yield curve is just above the waterline of 0 percent, with the short end even below sea level.

This shows that markets assign a not insignificant probability to a scenario in which the Swiss National Bank will have to bring its key interest rate below zero for a certain period. Only at longer maturities do Swiss government bonds offer yields just above 0 percent. The conclusion for investors in Swiss francs is sobering: Today, and likely for the foreseeable future, substantial profits are no longer achievable with fixed-income investments. This applies especially to cash holdings and bonds with very short maturities.

Against this backdrop, we favor stable Swiss dividend stocks as an alternative. They currently offer a yield of around 4 percent, which can be increased to about 7 percent annually through a covered call writing strategy. In this approach, call options on portfolio stocks are regularly sold, with the upside potential above a certain threshold (e.g., 5 percent above the current price) being given up. While this strategy is particularly suitable for sideways-moving as well as slightly rising

or falling markets and generates immediate additional premium income, it does limit upside potential if the underlying stocks rise sharply and still exposes investors to losses if the stocks decline.

Another advantage: Option premiums are considered capital gains for tax purposes and are not subject to income tax, which increases the net yield of such a structured dividend stock portfolio. Given the current interest rate situation and persistently moderate inflation, we view well-diversified dividend portfolios with covered call writing as an attractive strategy for generating income—provided investors are comfortable with the trade-off between capped gains and ongoing market risk.

Gradually putting idle, unneeded cash to work can pay off, especially with a somewhat longer investment horizon. This gives you the opportunity to escape the depths of the current zero-interest policy and generate decent returns.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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