RICHTWERT CAPITAL

Rational by Design, Fair by Choice

PROTECTING OURSELVES WHEN INTEREST RATES ARE LOW AND ASSET PRICES ARE HIGH

A few years ago, I realized that savers were being systematically hurt as a result of the financial crisis because we were saving speculators and socializing the debts of irresponsible borrowers with record-low interest rates.

Convinced that people deserve better than being forced to take ever-increasing risks or to accept low returns, and disappointed with the way most investment managers deal with clients, I founded RICHTWERT to provide savers and investors a fair and intelligent alternative.

My vision for RICHTWERT was to help people invest intelligently so they can live the life they deserve by bringing fairness and the mindset of business ownership back to investing.

That meant I had to sit in the same boat with my investors by investing my own capital the same way as theirs and by eliminating all fees for a performance-based profit-share after achieving an annual hurdle rate. It also meant that I would only invest like a true business owner.

I'm happy to announce that the results have been attractive so far: "*5-Year Anniversary Letter*"

But what does the future hold?

I'm disappointed that we've wasted the opportunity to reform after the financial crisis. Instead of investing heavily in education, infrastructure, and clean energy; instead of regulating thoughtfully and working more closely between countries, we've predominantly relied on lowering interest rates to stimulate the economy and done the opposite regarding regulation and cooperation between countries. What may have been justified during the peak of the financial crisis is counterproductive today because it takes away the pressure for much- needed reforms. Moreover, it's both irresponsible and immoral to rob ordinary people the income they need for retirement even more than a decade later.

Make no mistake. I'm optimistic. With technology advancing so rapidly the best is yet to come. And there is much we can do on an economic level. I'll save that for another time because I'd like to talk about what individuals and organizations can do to protect themselves[1]:

Record-low interest rates have inflated asset prices in general and most noticeably for bonds. Around $15 trillion in bonds have negative nominal yields[2] meaning lenders pay borrowers to take their money! Taking inflation into consideration the picture looks even worse for bonds in general. I would stay away from bonds, after all, if something is not worth doing, it's not worth doing well.

Real estate has become much more expensive in most countries as well. But since real estate is always local you may be able to find a worthwhile investment. However, I advise great caution due to inflated prices in general and especially when you're not planning to live in it yourself.

Stocks have benefited from low interest rates too but nowhere close to bonds and significantly less than real estate. Take for instance the companies included in the S&P 500 index, which are among the highest valued. They are earning almost 15% on book value and are valued at roughly 3.3 times book value which translates to roughly 22 times earnings[3]. Of course, these are not bargain prices in general but in a world where long-term interest rates are negative to 2% stocks at these valuations are far from expensive.

If you decide to invest passively, I recommend focusing on the long-term, starting today if you haven't already and spreading your investments over time (dollar-cost-averaging) in highly diversified, broad, low-cost stock market indexes that do not rely on derivatives.

[1] I only address income-producing assets because I don't regard anything else as an asset for investment purposes.
[2] https://www.cnbc.com/2019/08/07/bizarro-bonds-negative-yielding-debt-in-the-world-balloons-to-15-trillion.html
[3] https://us.spindices.com/indices/equity/sp-500

At RICHTWERT I invest selectively by focusing on attractively valued high-quality businesses with financial strengths and enduring competitive advantages run by strong management teams because they do well during good times, but they really tend to benefit from tough times. In addition, I look for companies that offer either some protection or even benefit from potentially rising interest rates.

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