Alternative Income Solutions, LLC
One Year Later
January 2023

AIS
ALTERNATIVE INCOME SOLUTIONS

In January of 2022, we released a paper entitled, "The Myth of Liquidity". In it, we suggested that the primary sources of liquidity were all vulnerable to factors that could negate the primary definition(s) of liquidity:

Merriam-Webster:

a- consisting of or capable of ready conversion into cash (liquid assets)
b- capable of covering current liabilities quickly with current assets

Investopedia.com:

Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. The most liquid asset of all is cash itself.

Several factors intervened in 2022 including:

- Volatility
- Monetary Policy adjustments
- Supply and Demand imbalances
- Inflation

These factors led the three primary sources of liquidity that were identified in the paper - *Cash Equivalents, Fixed-Income Securities and Equities* - to disappoint.

In the case of cash equivalents, the yield at the beginning of the year was effectively zero. As of December, the Fed had increased its target for the Fed Funds rate to 4 – 4.25%. Inflation over the period was 7.1%, as measured by the Consumer Price Index (CPI). With continued low interest rates (yet rising) through most of the year and rapidly rising prices, there was roughly a *5% loss* of purchasing power for cash assets.

Fixed-Income values declined significantly over the year with the SPDR Portfolio Aggregate Bond ETF (SPAB) *down 15.16%* as of 12/30/22.

Equities, as measured by SPDR S&P 500 ETF Trust (SPY), were *down 19.48%* as of 12/30/2022.

We cited "Safe Liquidity" as a key objective. While each of these assets provided liquidity, not one of them provided safety - with cash losing purchasing power and fixed-income and equities losing both purchasing power and value.

In the paper we advocated for reliance on cash flows from Specialty Finance opportunities. During the year these opportunities provided

- Stable value in terms of price
- Portfolio returns between 9 and 10% which meaningfully exceeded the inflation rate of 7.1%
- Predictable quarterly cash-flows

Even now with bond yields at 3.88% for the ten-year Treasury (as of 12/30/22) and cash yields at close to 4%, we continue to believe that predictable cash flow needs should come from assets that offer both stable value and yields that exceed inflation.

We know of no better alternative than Specialty Finance.