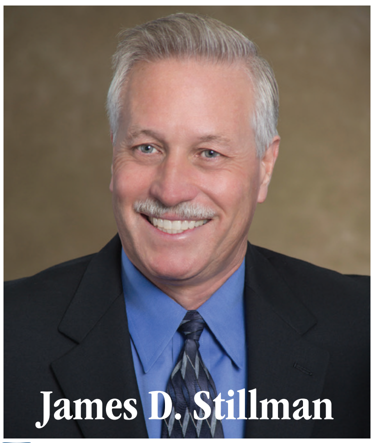
Between the Beacons

Charting Your Course to Retirement

Finding Higher Yields in a Low Yield World



It seems that not long ago, you could build a reliable portfolio of income-producing investments with just a few simple steps. It's not so easy these days with "safe money" options lucky to get 1%-2%. Since income should be your main priority in retirement, this is a huge issue that needs to be addressed.

In my humble opinion, traditional fixed income portfolios could be in for a rude awakening since we've built a massive bond bubble. As the Feds raise interest rates, be prepared to see the value of your bond portfolio decrease. So, although bond strategies will continue to work, it'll be very important to manage them carefully as time goes on. Recently, Roger G. Ibbotson, PhD of economics, came out with an extensive study urging people to consider using Fixed Indexed Annuities to replace the bond portion of their portfolio, and he gives you all the proof of why you should do so. I'd encourage everyone to read this study for yourself. We have it available, so just let us know if you'd like a copy.

Yields of 5% - 7% are still attainable, but you have to think "outside the box" of what might seem familiar. One must always balance risk with return (risk adjusted return) when choosing income options. Attaining a 5% - 7% income flow can be done relatively safely when structured properly. Here are a few choices with attractive yields to consider:

Income Annuity Ladders - This is a method of "laddering" specific annuities to achieve a specific ***guaranteed stream of life income***. Yields of 5% - 7% payouts are common, and inflation protection can be built in. We call this "income longevity insurance". ***Hybrid Fixed Indexed Annuities*** have worked very well using these laddering techniques, combined with guaranteed income riders. Dr. Ibbotson's study proves this point quite well.

Dividend-Paying Stocks – The average yield for S&P 500 dividend paying stocks is approximately 2.5% - 3%. By sector, telecom companies have the highest yields at 6%, followed by utilities at 4.2%. Investors concerned about risk should look for companies that have raised their dividends for the past 10 years and aren't straining to pay them.

REITs – Real-Estate Investment Trusts have had strong returns in recent years. REITs are corporate entities investing in real estate (usually leasing apartment and medical complexes). Their purpose is to reduce or eliminate corporate taxes. REITs are required to pay out 90% of their taxable income to investors each year. The apartment and medical sectors have been particularly strong. 6% - 8% yields are possible, but you need to be careful when investing and ensure you understand what you're getting into.

Master Limited Partnerships – MLPs are publicly traded limited partnerships. Because of their organizational structure, they don't pay corporate taxes and can pass much of their profits on to investors. I like energy-related MLPs, not only for their solid dividend yields often 6% or more, but because they are relatively stable investments and good for diversification strategies.

Bonds - There are various types of bonds (US treasuries, municipal, corporate, high-yield, emerging market etc). High-Yield Bonds, those rated BB or lower, clearly come with more risk, but you can pick up substantial yields in excess of 7%. These can be purchased as bond funds, or through an ETF (exchange traded fund). Munis are tax exempt, so if you get one yielding 4.4% that's equivalent to a 6.8% taxable bond if you're in the 35% tax bracket. Munis are typically best positioned for high income earners. US treasuries and corporate bond rates are still pretty low, and as interest rates rise, bond values will decrease. So be prepared to hold onto them until maturity.

Separately Managed Accounts – This is where we partner with Institutional Wealth Managers, who have developed specific portfolio strategies, using a blend of most of what we've discussed. They are actively managed, liquid at all times, and have averaged about 5% - 6% over time with a good measure of safety.

So, as you can see, there are options for higher yields that are still relatively safe. At JDS, everything we do is designed to take the worry out of retirement. If you'd like to set up a visit to discuss your retirement and get your own ***Chart Your Course Retirement Plan***, then give us a call.

And remember: ***The purpose of the money dictates where you put it!***

Until Next Month,
James D. Stillman

Chart Your Course to Retirement

Thursday June 14th and Tuesday June 19th

Twisted Oak - Statesville

6:30pm
(doors open at 6:00pm)

REGISTRATION REQUIRED TO ATTEND
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