Talk of the Town

Finding Higher Yields in a Low Yield World

James D. Stillman

Yes folks, there has been a war declared on "senior savers"! Not long ago, you could build a reliable portfolio of income-producing investments with just a few simple steps. Not so these days with safe money options lucky to get 1%-2%. I wrote an article addressing this a few years ago, but since then things have not changed much in the fixed income marketplace. So, I thought I'd run it by you again.

In my humble opinion, traditional fixed income portfolios could be in for a rude awakening since we've built a massive bond bubble. As soon as the Fed raises interest rates, don't be surprised to see the value of your bond portfolio crash. So, although bond strategies will continue to work, it'll be very important to manage them carefully as time goes on.

Yields of 5% - 7% are 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 lifetime income. Yields of 5% - 7% payouts are common and inflation protection can be built in. We call this "longevity insurance". ***Hybrid Fixed Indexed Annuities*** have worked very well using these laddering techniques combined with guaranteed income riders.

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. We have various REITs paying out 6%-8% yields.

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. We 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 (U. S. treasuries, municipal, corporate, high-yield, emerging markets, etc.). U.S. Treasury Bonds are at historic lows, so I'm not going to discuss those. New corporate issues are typically low, so I'm not talking about them. But let's briefly discuss some bonds that pay higher yields, especially if you don't mind taking on a little more risk:

A) 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).

B) Municipal Bonds are tax exempt (from federal and sometimes local/state taxes), 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. Muni's are typically best positioned for high income earners because of these tax advantages.

Separately Managed Accounts - This is where we partner with Institutional Wealth Managers who have developed specific income portfolio strategies using a blend of most of what we've discussed above. They are actively managed, 100% liquid at all times, and we have strategies that over the past 10-12 years have averaged approximately 6% with no down years. This "in my opinion" is the wave of the future.

So, as you can see, there are many options for higher yields that are still relatively safe. As always, if you'd like more information or a free consultation just give us a call. Tune in to "The Safe Harbor Retirement Planning Show" every Wednesday at 8:00am and Saturday at 10:00am on WSIC 1400 AM or 100.7 FM.

Until next month,

James D. Stillman

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Safe Harbor Retirement Planning Show

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