Buena Vista Investment Management, LLC

Creative Investment Solutions

WHERE IS THE YIELD?

By Peter Brey, Partner Buena Vista Investment Management December 2011

In 2007, an investor could easily get 4-5% in one year to three year certificates of deposits and government bonds. These rates on a $500,000 fixed income portfolio generated income of almost $25,000. Retired people used this income to pay off budget items or for discretionary purchases. Today, a similar portfolio of government bonds and certificates of deposits might generate only $2000-$3000. The giant reduction in this income stream has put many seniors in difficult situations. Do they cut back on their spending or do they begin to spend their principal? Neither of these alternatives is very attractive. The pursuit of income is going on worldwide. I believe that this search may go on for at least the next two years. The Federal Reserve is on record that they intend to leave the fed funds rate at 0% at least into 2013. The Federal Reserve is also using their proceeds from the bond maturities in their portfolio to buy long bonds (10-30 years). The result of that strategy is that the yield on long bonds will probably decrease or minimally, stay at the current returns. Yesterday, ten year treasuries were returning 1.86% and thirty year treasuries were yielding 2.92%. Therefore, investments in long bonds are extremely aggressive as the return does not merit the length of time an investor must tie up their money.

So the question becomes what type of assets should a person invest in, in order to get back to 4-5% interest rate returns? Currently, Buena Vista is investing in three types of investments generating income returns from 2.5% to 9%. These areas are corporate bonds with maturities of 1-3 years, preferred stocks and dividend yielding common stocks.

The Europe situation has led to an increase in the current yields of corporate debt as investors have sold corporate bonds. These bonds are similar in structure to certificates of deposits and government bonds. They have a stated interest rate and the y come due on a specific date. The strategy is to buy these bonds so that the investor has maturities in 2013, 2014 and 2015. The current yields are 2.5% to as high as 5%. The bonds are rated investment grade which is the highest rating of safety given out by the rating agencies.

Preferred shares are issued by corporations as part of their capital structure. These shares have yields which are similar to bonds but trade on exchanges like stocks. The current rate of income returns are 6% to 9%. They pay the same distributions on a quarterly basis. Maturities on these instruments vary. Some preferred shares never mature. Other issues have a date where the company can buy them back at a stated price. The fluctuations in the current price of preferred stocks are greater than bonds.

Finally, the last option is dividend paying common stocks. During the volatility of this year's stock market, the stocks that held up the best were ones which were yielding greater than 3% in dividends and that had a record of increasing that dividend every year. Utilities, REITs, Master Limited Partnerships, Drug Companies and Consumer Staple Companies all have these characteristics.

If you would like advice on how to increase your income stream, please contact Buena Vista for a free consultation.

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