CHARTER MEMBER PREMIER ISSUE

Kiplinger's
Investing for Income
Strategies to Boost Your Cash Yield

Where to Invest Now for Safety and Income

After standing tall in 2011, some areas of the bond market wobbled at times in 2012. For example, in March, long-term Treasury yields rose rapidly, suggesting at the time that we could be entering a bear market in government bonds, if not all bonds. Although Treasury yields have since backtracked, the brief early-spring selloff nicked 7% from the price of a ten-year Treasury and almost as much from plenty of popular bond mutual funds. (The general rule, of course, is that as interest rates rise, the market value of existing bonds and the net asset value of bond-fund shares go in the opposite direction). So, although Treasury bonds continue to attract buyers at what seems like impossibly low rates, you can't afford to be complacent. Treasuries are more dangerous than you think.

The Threat of Rising Rates

Ironically, the cause for concern is a collection of positive economic signs: growing confidence that the recovery, though slow, is sound, with favorable trends in jobs and housing and a strong stock market. History tells us that in this environment, it's more likely that interest rates will go higher rather than stay put. It also means more appetite for risk from people who have been willing to buy and hold Treasury bonds the past few years. *Kiplinger's* doesn't forecast an economic boom, but our target for U.S. growth of 2% in 2012, with a pickup later in the year, is enough to suggest that bond yields have clearly bottomed and will gradually move closer to the normal levels seen in previous economic expansions, starting next year.

> **Municipals head the list of timely income opportunities.**

Now, back to the value of bonds. If you own long-term Treasuries that yield less than 2%, imaging what will happen if the economy catches fire and bond yields ratchet up over the next few years. You could easily lose as much as 25% of your principal. In the stock market, or in real estate, that's called a crash. Under the most benign outlook for Treasuries—that yields will stay flat the rest of 2012 and creep up only gradually in 2013—you'll still do little more than break even as the loss of principal offsets puny yields. That is not a pretty picture.

But neither is it a call to panic and run from everything that resembles a bond. For example, there's no reason to tear down a corporate or municipal bond ladder built several years ago that still pays you 5% or 6%. The puzzle is what to do if you have fresh money to invest or reinvest. You need to know which kinds of bonds are best placed now to deliver the regular income you need and to keep their value regardless of how rates behave this year and next.

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Prime Time for Municipal Bonds

Perhaps surprisingly, we think municipals head the list of timely income opportunities. The up-and-down action in Treasury prices hasn't spread much to munis, so owners haven't noticed much bounce in the value of tax-exempt bonds or bond-fund shares. There is an ever-present concern that some state or local authorities will have budget troubles, but those problems almost never get to the point that bond holders do not get paid. The list of defaulted or impaired bonds consists almost entirely of issues used to finance projects such as nursing homes and senior-citizen housing; these often fall on hard times because of mismanagement rather than economic conditions.

And, yes, you can find tax-free bonds with good ratings and backed by general tax revenues that yield more than Treasury bonds of the same maturity. For example, you could recently buy a 20-year bond rated A or better from an issuer such as the state of California or the city of Chicago at a price that works out to a yield to maturity of 4.3% to 4.6%. If you are in the 33% tax bracket, you would need to earn more than 6% on a taxable bond to net the same after-tax income (and even more if the muni you choose also escapes a high state-income-tax bill). No wonder municipals are not only holding their value, but often appreciating. So far in 2012, the Barclays general municipal index shows a positive total return of 4.5%, while Treasuries are mostly breaking even.

The Promise of GNMA Securities

There is a path to federal-government backing that steers clear of Treasuries. **GNMA securities**, which are issued by the Government National Mortgage Association, are home-mortgage pools guaranteed by the government . . . not to be confused with the subprime-mortgage securities that blew up several years ago. A low-cost, no-load GNMA fund is the best way to invest in this complicated category. The better ones yield around 3%. The income is federally taxable, so municipals will almost always leave you with more net income. But if you prefer the federal government's guarantee, or you are holding these inside an IRA or other tax-deferred structure, a GNMA investment wins the trifecta. It yields more than a Treasury, there's less risk of losing value if interest rates rise, and it has the same credit standing as a Treasury.

Two of our favorite funds are **Vanguard GNMA (symbol VFIIX)** and **Fidelity GNMA (FGMNX)**. Both pay dividends monthly and are reasonable substitutes for an online savings account or CDs in the three-to-five-year range.

Good Junk to the Rescue

Finally, consider better-quality high-yield or "junk" corporate bonds for maximum income and possible price appreciation. This is the segment of the high-yield market rated B to BB+ by Standard & Poor's or B to Ba1 by Moody's. These bonds rarely default during an economic expansion—in fact, many of them are the debt of companies that have recently won a ratings upgrade. High-yield bonds are less sensitive to interest-rate movements than investment-grade corporates, municipals or Treasuries.

And because junk slumped badly last year as a result of all the fears of financial collapse, junk yields are still relatively generous. The broad Bloomberg high-yield index is at 7.1%, and many individual B- or BB-rated high-yield issues are priced to yield more than 8% to maturity—including bonds backed by familiar companies such as Sprint and Sears Holdings. You can buy individual bonds through a broker, but most people prefer to invest in the category through a fund. Two that prefer higher-quality junk issues are **TIAA-CREF High-Yield Retail (TIYRX)** and **Payden High Income (PYHRX)**. Both pay dividends monthly, yield over 6%, and have low expenses.

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An Income-and-Growth Plan Powered by Dividends

The strategy of buying a few famous stocks and holding them for life is out of favor. But that doesn't mean every buy-and-hold investing plan is passé. The concept just needs tweaking. Here's an income-and-growth variation *Kiplinger's* calls "buy and hold, collect and grow," or BHCG for short.

Dividends are the key. In BHCG, you invest in companies that regularly raise dividends, add more shares as you go, collect a rising stream of income, and stay put unless there's a scandal or the company does an about-face and reduces or eliminates its dividend. The plan lets you ride along with cash-rich businesses that generate higher revenues, bigger profits and huge cash flow year after year. Often, the management is committed to boosting dividends by double-digit percentages in all but the direst of economic conditions. The plan works well inside an IRA—generating cash for regular distributions, for example—as well as with a taxable account you need to tap for income but not drain too rapidly.

Ideal BHCG stocks don't necessarily rank highest for current yield. For example, AT&T pays 4.7%, but AT&T doesn't raise dividends fast enough to qualify. Remember: The beauty of BHCG is to own stocks whose prices rise steadily because they get a push from an ever-higher dividend payment.

Consider the share-price and dividend history of McDonald's (symbol MCD). In 2001, it paid a mere 23 cents a year on a stock that averaged $30, for a yield of 0.8%. In 2002, McDonald's raised its annual dividend to 24 cents. Then the company's fortunes improved (and the tax laws favored dividends again) and McDonald's started super-sizing its cash payments to shareholders. By 2006, the dividend hit $1 a year After a 15% increase in November 2011, the Golden Arches now pay out $2.80 a year. That's more than a 1,100% increase since 2001, or 28% annualized, the highest of any company in the Dow Jones industrial average.

The shares have steadily grown in value and currently trade around $90. That's a decent yield of 3.1% if you invest now. But if you had begun building a position ten years ago, your original shares would be effectively yielding nearly 10%. Despite its strong gains, McDonald's can still serve as a cornerstone of a new BHCG strategy. These five stocks are also well suited to the BHCG strategy:

Automatic Data Processing (ADP; $57; yield 2.8%). The payroll-service king is swimming in cash and has an impeccable balance sheet. ADP is one of only four U.S. nonfinancial companies with a triple-A bond rating from Standard & Poor's and Moody's. The stock has lost value in only one year since 2002. The dividend is $1.58 a year.

Church & Dwight (CHD; $56; 1.7%) The company's long-term stock price has risen without interruption, from $3 for most of the 1990s, to today's $56. It makes the familiar Arm & Hammer brand products—from baking soda to cat litter to detergent—and is in a few other consumer businesses. Church & Dwight paid small dividends for ages but got serious in 2005. Since then, its annual rate has quadrupled to 24 cents.

Fastenal (FAST; $43; 1.5%). Fastenal sells an immense array of industrial and construction supplies, including fasteners, tools, blades, pipes and chains, in hundreds of its own stores in the U.S. and Canada. Fastenal started paying a penny a share in 1999; the annual rate is now 76 cents. The stock's long-term performance has been equally remarkable, even outpacing McDonald's over ten years.

IBM (IBM; $199; 1.7%). The consulting and software powerhouse discovered that greater success lies in getting away from manufacturing. Back when IBM mass-produced PCs, it paid measly dividends—just 25 cents a share as recently as 1995. The annual rate is now $3.40 and IBM has the cash flow to pay much, much more.

Norfolk Southern (NSC; $75; 2.7%). The big eastern and southern railway is booming with shipments of coal for export and strong demand for other commodities. Norfolk Southern slashed its dividend in 2001 but has since been making amends; its $2.00 annual payout reflects an annual pace of 23% since 2002.

If you prefer a mutual fund, the best choice is **Vanguard Dividend Growth** (VDIGX). It currently yields just 2.1%, but it picks stocks with an eye toward collecting more income and boosting semiannual cash payments to fund shareholders when possible. The fund has an exchange-traded counterpart in **Vanguard Dividend Appreciation** (VIG). **Franklin Rising Dividends** (FRDPX) also has a fine record. It levies a sales charge, so they make sense mainly if you work with a financial adviser who can buy them for you without the load.

Under-the-Radar REITS with Over-the-Top Returns

Real estate investment trusts are off to a flying start in 2012. But as in every category of stocks and funds, there are laggards. These five REITs are bouncing back from a long spell of poor performance. Each is up at least 15% so far in 2012, but still offers the opportunity for additional growth and rising dividends. Unlike the shares of many better-known or larger real estate trusts, each in this collection (listed in alphabetical order) still trades at a discount or only a narrow premium to net asset value per share.

Apartment Investment & Management (symbol AIV; $27; 2.7%) had been losing money the past few years and lagged most apartment REITs. But it's now at break even and, more to the point, Aimco (as it's commonly known) has reached 96% occupancy in its national array of mid-priced apartments (average rent: $1,111). Plus, it is able to raise rents for new occupants by an average of 4% and for holdover tenants by 4% to 5%. Because its rents are moderate and its units aren't concentrated in expensive cities, Aimco should get a boost from reduced unemployment and a broad economic recovery. Other apartment REITs generally own high-end rentals, which are less sensitive to economic conditions because such luxury units appeal to mobile executives and high-earners with ample job security who prefer not to buy a residence.

Duke Realty (DRE, $14; 4.7%) has been struggling to develop mega mixed-use commercial and industrial projects on its extensive vacant land holdings. That, plus poor results with suburban office parks, have hurt the stock. But Duke is now facing reality and dumping its dogs as quickly as it can in favor of industrial and medical properties. There is a plan here, so think of this as a long-term land investment that's worth a shot despite all the frustrations. The dividend yield is higher than that of most REITs but the cash flow covers it comfortably.

Kimco (KIM; $20; 3.8%) owns hundreds of the kind of shopping centers that dot the American landscape—you know, the ones with a supermarket, a chain drugstore and a bank branch mixed in with a pizza joint, Chinese carry-out and a hair salon. It's been a weak long-term performer compared with upscale retail rivals such as Federal Realty Investment Trust (FRT). But there's no obvious reason Kimco can't be a good investment as well, especially now that it's refinanced some of its debt on better terms.

Prologis (PLD; $34; 3.3%) lost more than 50% from 2007 to mid 2011, a stunningly poor performance for a REIT. But the turnaround is well along. Prologis owns 3,500 properties, with 60% in the U.S., Canada and Mexico and about one-third in Europe. Its specialty is warehouses and distribution hubs near seaports, airports and busy trucking terminals. This REIT's financial statements are more complex than most, but its fortunes are dependent on something simple: a sustained upturn in business conditions, and we're seeing that.

Sovran Self Storage (SSS; $57; 3.2%), which operates under the name Uncle Bob's, is one-twentieth the size of Public Storage, the leader in the locker business. But Sovran is a good investment alternative based on value, because its shares sell at a discount to the REIT's net asset value—unlike the rest of the self-storage group. Sovran is financially sound, with occupancy rising and rents up about 5% a year. There was a dividend cut in 2009, but the payments since are steady and the yield is decent. If you like simple businesses in your investment portfolio, storage is easy to understand.

Timely Tactic of the Month

The soaring Dow Jones industrial average means giant stocks are clearly in favor. But Kiplinger's suspects the Dow won't go up much the rest of this year. That would be a plus for **Dow 30 Enhanced Premium & Income Fund** (DPO). It owns the index's stocks and also sells call options against them, using the income from the options to boost the payout rate well above the 2.6% dividend yield of the Dow 30. DPO pays out $0.218 per share quarterly, for a distribution rate (not the same as a dividend yield) of 7.9% on the fund's share price of $10.90. When the DJIA is rising briskly, the strategy deprives fund shareholders of some gains as stocks are called at lower strike prices. But if the average levels off, the option income becomes a bonus.

Kiplinger's 25 for Income

The Kiplinger 25 for Income investments has performed solidly since the premier issue of *Kiplinger's Investing for Income*. This month, we do make one change to the group: T. Rowe Price High Yield is closed to new investors; we have replaced it with **Metropolitan West High Yield Bond.** The fund has low expenses, a strong yield and excellent management—and, as you can see from our article about this segment of the bond market, it is in a timely sector.

Selections from the Kiplinger 25 for Income do not pay the highest current yields in their groups, nor do they always produce the highest total returns. The list is an honor roll of stable, liquid and understandable income investments we know well and trust. Our minimum yield target is 5%, though we'll allow for a small shortfall if a stock's or a fund's shares shoot up in value. In that vein, note the strong gains in the share prices of the group's two tax-exempt closed-end funds, **DWS Municipal Income** and **Nuveen Municipal Value.** DWS borrows some money, which helps it to distribute 5.6%. The Nuveen fund is unleveraged, so as of July 20 its yield was 4.5%—but it's still very much a winning investment.

Utility stocks		**Price**	**Yield**	**Frequency**
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	$41.93	4.5%	quarterly
AT&T (T)	Wireless service giant that grew out of the former SBC	35.29	5.0	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York State	51.39	7.8	semi-annually
Telefonica (TEF)	Major European and South American phone and wireless company	11.24	13.5	semi-annually
High-yielding open-end bond funds (buy and sell from the fund company)				
Artio Global High Income (BJBHX)	Intermediate-term corporate bonds from all over the world	$10.07	7.7%	monthly
DoubleLine Total Return (DLTNX)	Income fund that makes the most of mortgage securities	11.30	5.3	monthly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	9.14	5.5	monthly
Fidelity New Markets Income (FNMIX)	New but impressive emerging markets bond fund	17.19	4.3	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund that shoots for above-average yield	14.55	4.0	monthly
Metropolitan West High Yield Bond (MWHYX)	Medium-size junk bond fund with high standards and excellent record	10.10	6.9	monthly
Closed-end mutual funds and ETFs (buy and sell like stocks)				
Aberdeen Asia-Pacific Income (FAX)	Low-risk fund of short and intermediate-term Australian and Asian bonds	$ 7.77	5.4%	monthly
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	15.41	7.8	monthly
DWS Municipal Income Trust (KTF)	*A high-quality leveraged municipal fund for top tax-free income*	*14.97*	*5.6*	*monthly*
iShares Standard & Poor's U.S. Preferred Stock (PFF)	ETF with hundreds of preferred stocks	39.41	6.5	monthly
Nuveen Municipal Value (NUV)	*No leverage here, so less yield than the DWS fund but more safety*	*10.53*	*4.5*	*monthly*
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	17.63	7.7	monthly
Real Estate Investment Trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	$17.04	12.9%	quarterly
Government Properties Income Trust (GOV)	Big landlord to federal agencies, state governments and the United Nations	22.94	7.3	quarterly
Health Care REIT (HCN)	Develops and owns assisted-living homes, hospitals and medical labs	60.47	4.9	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 500 straight monthly dividends	41.53	4.2	monthly
Energy-income funds and partnerships				
BP Prudhoe Bay Royalty Trust (BPT)	Gets a share of revenue from Alaskan crude sales	$116.39	7.9%	quarterly
Brookfield Infrastructure Partners (BIP)*	Owns timberlands, toll highways, ports and transmission lines	33.22	4.9	quarterly
Plains All American Pipeline (PAA)*	Owns and operates fuel pipelines and storage facilities in the central U.S	88.00	4.8	quarterly
Suburban Propane Partners (SPH)*	Nationwide supplier and distributor of LP gas and similar fuels	43.80	7.8	quarterly
Vanguard Natural Resources (VNR)*	Explores for and produces oil and gas properties all over the U.S.	28.78	8.2	quarterly

Funds in italics pay tax-exempt income. Investments with asterisks (*) are partnerships. Prices and yields as of July 20.

Ask Jeff

Subscribers are invited to send questions about income investments to the Editor. Answers will appear here or by direct personal reply.

Dear Jeff:
Do you consider electric utilities among the lowest-risk and highest-yielding investments today?
Stephanie

Dear Stephanie:
Certainly, and as the economy picks up, I expect already healthy utility earnings to improve. Most traditional regulated utilities, such as **American Electric Power (symbol AEP)**, **Consolidated Edison (ED)** and **Southern Company (SO)**, are core holdings and suitable for conservative as well as growth-with-income portfolios.

Dear Jeff:
I keep hearing I should never invest my IRA money in municipal bonds because the main idea for municipals is the tax break. However, it seems municipals are earning a higher yield now than Treasury bonds. So what is wrong with putting some of my traditional IRA money into munis?
Robert

Dear Robert:
At the risk of being drummed out of this business, I'm going to agree with you. Generally, of course, you wouldn't put tax-frees in a traditional IRA because doing so performs reverse alchemy: Income that would be tax-free outside the IRA will be taxed when it is distributed from the IRA. However, as you note, sometimes munis yield more than taxable government debt of similar maturity. And since all distributions coming out of the IRA will be taxed, the quantity of money, not the source, is most important. So, for example, to exchange a long-term or intermediate Treasury fund that's already in your IRA for a municipal bond fund with a higher yield is a reasonable choice. Just keep a close eye on things so you can switch back when the situation warrants it. But I would not rush to put new contributions into munis. You should reserve most, if not all, of the maximum $5,000 annual contribution ($6,000 if you're age 50 or older) for categories where the tax deferral is clearly valuable. Two examples are REITs and junk bonds. If the tax on stock dividends goes up in 2013, stocks would join that list.

Dear Jeff:
If the tax rate on dividends is raised to equal the tax on interest income, what will happen to the value of dividend-paying stocks?
Mary

Dear Mary:
Unless Congress acts, the top tax rate on qualified dividends will jump next year from the current 15% to 39.6% (or 43.4% if you're subject to the Medicare surtax). There is already feverish lobbying to "save dividends," but the evidence is thin that dividend tax cuts or increases affect stock prices dramatically. Most REIT dividends, for example, do not qualify for the 15% rate, but REIT shares have performed spectacularly since the economy and markets hit bottom in 2009. It is possible that a few companies will de-emphasize cash dividends or trim increases if the tax rate goes up, but they may use the money instead to buy back shares, which in theory (if not always in reality) bolsters stock prices. For now, it's wait and see. If the tax rate does leap and you are in a high tax bracket but need every dollar of net income, you might move some money from dividend stocks to tax-exempt bonds. But remember if you sell appreciated stocks, you'll pay capital gains taxes and have less to reinvest.

Dear Jeff:
I would like your opinion on a closed-end fund, Pimco Income Opportunity Fund (PKO). It distributes 8.5%, and the price is relatively stable given the market environment. PKO appears to be substantially outperforming many funds with a similar objective. Am I overlooking problems here, such as sacrificing net asset value to keep up the monthly income distribution?
Richard

Dear Richard:
Pimco Income Opportunity is a risky fund, starting with its 43% leverage ratio (meaning it borrows 43 cents on top of every dollar of cash it invests). The fund is earning its high distribution without cannibalizing its net asset value, as some similar funds do, but Pimco does generate some of the fund's earnings by interest-rate swaps, short sales, currency translations and other trading artistry that is not as reliable as regular interest and dividends. If you believe Pimco's traders are brilliant, no worries. If you want a simpler fund, take your money elsewhere.

What's New in Cash

Dividend-tax brawl ahead. Lobbyists are arming for a fight to retain the 15% maximum federal tax rate on most dividends, which is due to expire at the end of 2012. The electric utilities' trade association, Edison Electric Institute, is paying for a "Defend My Dividend" campaign. The group claims that if the dividend tax rate reverts to parity with the tax on wages, utilities will be less interested in paying out their current 60% of earnings in cash to shareholders. Not sure what they'd rather do with the money...or what they think their shareholders would prefer to cold hard cash. As the battle heats up, Standard & Poor's reports that so far in 2012, 677 U.S. companies have boosted dividends by a combined $24.2 billion, a 28% raise over the same point in 2011.

Foreign bonds at your fingertips. After countless requests, brokerages such as Fidelity and Schwab now sell foreign government bonds directly. The bonds might not be easy to find (you have to screen for corporate bonds, not governments), but they are priced and pay interest in dollars. That part is simple. But is this a sensible investment? Recently, Fidelity offered an Italian government bond due in 2023 at a yield to maturity of 6.4%. (The markups and spreads are wide, but it's the end result that counts.) Italy's bond market is unstable, to say the least. A seven-year Mexican bond paying 2.3%—a percentage point more than a Treasury—looks better, but is that enough to change your life? For most of us, foreign bonds are for funds, not made-from-scratch portfolios.

Best time for municipals. The best month to own tax-exempt bonds is August, when municipals have averaged a return of 1.03% dating back to 1993, according to analyst Justin Hoogendoorn, of BMO Capital Markets. July is the next best month, with a 0.92% return. The worst? March and October, which average small losses. The calendar connection may seem silly, but bond-supply chain provides an explanation. New bonds are scarcest in the hot months and in December and January. That happens to be when many bondholders get their semiannual interest payments and reinvest the money. As they buy into relative scarcity, it pushes up prices. So buy munis when you get this page—or wait until around Thanksgiving.

Rates and Yields

MONEY-MARKET FUNDS

Taxable	Yield	Phone Number
Delaware Cash Reserve/A*	0.11%	800-362-7500
Flex-funds Money Market Retail*	0.11	800-325-3539
Category Average	**0.03%**	
Tax-Free	**Yield**	**Phone Number**
Invesco Tax-Exempt Inv*	0.09%	800-659-1005
Vanguard Tax-Exempt	0.05	800-662-7447
Category Average	**0.01%**	

*Fund is waiving all or a portion of its expenses.
Yields are as of July 3.

BENCHMARKS

	Year Ago	3 Months Ago	This Month
Inflation rate*	3.6%	2.7%	1.7%
Six-month Treasury	0.06	0.14	0.13
One-year Treasury	0.15	0.18	0.16
Ten-year Treasury	2.94	2.00	1.44

*Year-to-year change in CPI as of June 2011, March 2012, June 2012.

CERTIFICATES OF DEPOSIT

Six Months	Yield	Phone Number
Ascencia Bank (Ky.)	0.90%	877-369-2265
ableBanking (Mass.)	0.80	877-505-1933
Category Average	**0.20%**	
One Year	**Yield**	**Phone Number**
Doral Bank (Fla.)	1.15%	855-513-6725
CIT Bank (N.Y.)	1.10	855-505-9926
Category Average	**0.32%**	
Five Years	**Yield**	**Phone Number**
CIT Bank (N.Y.)	1.85%	855-505-9926
Third Federal Savings and Loan (Ohio)	1.75	800-844-7333
Category Average	**1.10%**	

Yields include compounding and are as of July 16, 2012.

FIXED ANNUITIES

Single Premium Immediate Annuity Monthly Payout Factor	Highest	Average
Male age 65	$605	$548
Female age 65	569	508
Male 70	688	631
Female 70	637	578

Payout factors fluctuate. Annuity payouts are guaranteed to the annuitant for life and to his or her beneficiary for ten years. Payouts on a single life will be higher. The payout factors are per each $100,000. SOURCES: Bankrate.com, Comparative Annuity Reports (toll-free number: 800-872-6684; www.comparativeannuityreports.com), iMoneyNet Inc. Annuity data are to July 2012.

Model Portfolio: Juiced-Up Cash

Symbol or Name	Info	Latest Yield
Six-month CD	www.bankrate.com	0.5%
Online savings account	www.bankrate.com	0.8
MINT (Pimco)	www.pimco.com	1.1
BSV (Vanguard)	www.vanguard.com	1.8
BWZ (SPDR)	www.spdrs.com	2.5
FFRHX (Fidelity)	www.fidelity.com	3.4
STHBX (Wells Fargo)	www.wellsfargoadvantagefunds.com	4.6

A typical money market fund is yielding 0.03%, and savings accounts at brick-and-mortar banks are paying as little as 0.25%, if that much. How can you protect your cash, keep it liquid, and earn at least lunch-and-coffee money?

This model portfolio, which yields 2% on the dot, is one of four we will rotate on this page and monitor for yield, return and safety. We call it Juiced-Up Cash because it's designed to keep cash for a rainy day with easy access to your money. There will be a smidgen of price risk. For example, the duration of the Wells Fargo fund is 1.6. That means that if market rates on bonds similar to its holdings rise an average of one percentage point, you could lose 1.6% of your principal. But we think the fund's 4.6% yield offsets that risk. To track the results, we're seeding our model portfolios with an imaginary $50,000. You don't need that much for real, though—only an online brokerage account.

$10,000 Fidelity Floating Rate High Income Fund (symbol FFRHX) This fund owns pieces of syndicated bank loans and credit lines to corporations. The yield floats as the interest rates on the loans reset.

$7,500 Pimco Enhanced Short Maturity Strategy ETF (MINT). Pimco uses an assortment of trading strategies to try to beat the yield on Treasury bills by a percentage point.

$7,500 Vanguard Short-Term Bond ETF (BSV). This fund tracks the Barclays Capital index of one- to five-year government and high-quality corporate bonds.

$7,500 Online savings account. Many banks, including Ally, ING and American Express, offer FDIC-insured savings with no minimum investment and no initial fees.

$7,500 Six-month CD. For a risk-free core deposit, compare online CD offerings to the rates at your daily bank. If you can find 0.60%, you're doing well. You may prefer to skip CDs for now in favor of earning slightly more in a savings account, but at some point you'll want a guaranteed yield.

$5,000 Wells Fargo Advantage Short-Term High Yield Bond Fund (STHBX). The portfolio holds junk bonds that are close to maturity, so you get a strong yield and less risk than with a standard junk fund. Though it's not a cash substitute, the fund's low volatility and short duration make it suitable for a small part of this low-risk portfolio.

$5,000 SPDR Barclays Short-Term International Treasury ETF (BWZ). Short-term government and corporate debt from places such as Great Britain, Germany and Japan gives you diversification and a small profit if the dollar weakens. Plus, the yield exceeds comparable Treasuries.