OCTOBER 2018, VOL. 7, NO. 10

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

Timely Thoughts on Your Asset Allocation

We've advised you all year to stick with investments that are working and resist far-reaching, impulsive, on-the-fly portfolio redesigns. If you're still accumulating money and not living off savings or investment income, 2018's bull run in stocks, real estate and energy is welcome. If you are withdrawing principal and spending the interest and dividends, or if you have accumulated bricks of cash enough to last forever, rising yields on money-market funds and short-to-intermediate-term debt are also well-timed. You might wish you scored more of this year's robust capital gains. But you should be comfortable nonetheless.

Indeed, in a summertime column in Kiplinger's Personal Finance, we argued "the case for doing absolutely nothing," meaning to stay with what is successful and to maintain a consistent asset allocation while you ignore financial news and go about real life. That was a tad hyperbolic. But in the main, summer was smooth. Shocks on the magnitude of the 1,000-point Dow drops in February did not repeat. U.S. stocks are still on the rise, and Treasury, municipal and high-grade corporate bonds are safe at least into next year. Leveraged junk-rated bonds and mortgages will be the first categories to get rocky, along with emerging-markets bonds and funds, which have already plunged. Those are righteous sells. But with core investments such as dividend-paying stocks, shares of utilities and tax-free bonds, a downturn would have to persist well beyond a few days or a couple of weeks, plus there would need to be a bulge in defaults and dividend cuts and ratings downgrades, before we even started to imagine disastrous scenarios. Some people worry excessively that it's 10 years now and we haven't had an echo of 2008's financial calamity. We say that's cause for applause.

> **Re-examine every key position while your portfolio isn't under the gun.**

Which brings us to a constructive use for this calm spell: Re-examine every key position while your portfolio isn't under the gun. You're looking for two potential trouble spots. One is whether you have investments whose risk now exceeds their reasonable remaining growth potential. The other is whether you are devoting too much (or too little) to any one sector and don't realize it.

You might adopt a broad allocation percentage guideline, such as 55% stocks, 35% bonds and 10% cash. That's the latest recommendation from the Ned Davis Research Group, which further describes that 55% as leaning negative, meaning that a lower stock allocation is more likely to follow than an increase. Others are less straightforward. Wells Fargo Investment Institute lumps "alternative invest-

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ments," such as real estate and commodities, under "equity," or stocks. Thus, the Wells conservative growth-and-income model calls for 58% stocks and stock-like stuff, 39% bonds and 3% cash; its aggressive model is 76%/21%/3%, with assorted small positions, such as 9% in real estate and 2% in commodities, beneath the largest umbrella. This is almost impossible to copy but works as a reference point.

Some advisers we've talked to espouse general risk-trimming, noting that many investments have appreciated massively. "We're taking some gains off the table in stocks, especially technology and some of the high-growth areas," says Greg Woodard, of Manning & Napier. Woodard also advises reducing high-yield corporate bonds and building more cash.

In sum, it's clear there is no one-size-fits-all ideal. If you are long past the age of adding to your IRA and 401(k) balances, 55% in stocks sounds heavy, not cautious. But to get to 55% could require a sell-down if you're still working or newly retired and have been directing 65% of every deferral into equities since the beginning. Given soaring stock prices, if you haven't sold or trimmed much, you could have 75% in stocks. Some culling and rebalancing are likely in order.

Bond returns are flat to down in 2018, but the reasons to own bonds haven't changed: predictable income, yield advantage over bank deposits and protection against a stock-market wipeout. If you haven't added to your bonds in 2018, or you cashed some in, your total stake in bonds is probably less than last winter, even counting bond equivalents such as preferred stock. If you have 20% in bonds but thought you had 30%, it's time for yet more rebalancing.

Then comes cash. We say money-market funds are short-term variable-rate investments, so it's fair to combine money-fund balances with bonds. A 2% yield is good enough that you can be patient with short-term repositories rather than feel compelled to rush "lazy money" to work. This leads to our conclusion, which is that rather than using rigid percentages, think about every holding's risk-reward aspects and whether you are over- or under-represented in a category. Some tasks for a rainy day:

Flag whatever is rich. With stocks, this refers to the various indicators of valuation, from the price-earnings ratio to the yield. With REITs, track the ratio of share price to net asset value. If something trades way above the usual level—this could also mean a closed-end fund at a record high premium to net asset value—you have a candidate to trim as part of your rebalancing.

More is usually merrier. We cover upwards of 20 investment categories and except for bank deposits and Treasury bonds, we prefer you hold multiple issues or funds in all of them. That is, if you have $10,000 of one utility's shares and $3,000 of another's, and the yields, returns and dividend growth are comparable, even it out—or cut your investment in the first one if you own too many utilities all told. The idea is to defend against random events, such as a profit warning or a scandal, that can hammer one investment but spare its peers and competitors.

Liquidity is your friend. We don't discuss—or recommend—private oil or real estate funds or anything limited to "accredited" investors (often $1 million or more of assets besides real estate) because of restrictions on when and where you can buy and sell and at what price. Even publicly-quoted investments, such as municipal bonds from small and infrequent borrowers, can be hard to unload in good times and might be impossible in an emergency. If you have anything with impaired liquidity, now's a window to cut it loose.

Cash flow is critical. We're not predicting a credit crunch. But even if the markets don't hit a snag, be sure the money is there for a dividend bump-up or the next bond-interest payment. It's not hard to find this on a corporate balance sheet or a fund's statement of operations or a municipality's annual financial disclosure. If you can't get a sense of this, or you are suspicious, you may want to put the security on the cull list.

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Yes, $25 Still Buys Good Stuff

Since our launch in 2012, we've had a thing for $25 par value, high-coupon bond snippets (also called "baby bonds") and preferred shares that you can trade as easily as ordinary common stocks. Years ago, we found gobs of these gadgets for $23 or $24—a discount price that enables the buyer to begin with a yield well over 5% and provides the prospect of a capital gain for dessert.

Alas, the world saw this, too. So you're likely now to find such securities trading above the $26 threshold that we are loath to leapfrog. If you pay a premium and the call date is nigh, you're in trouble. Example: In August 2017's letter, we told you the 6.20% Capital One preferreds (COF-F), callable in 2020, were expensive at $26.93. They're down to $25.85 as of September 18, but while that's a better entry price, it's 14 months closer to the first call date. So if you buy now, you are assured of 6.20% only so briefly that the yield to call is 4.6%. That beats the 1.65% on Capital One's common shares, but those are gaining value and have no expiration date. Other Capital One preferreds now sell for a yield to call as scanty as 2.5%. That is not much of a reward when you can get that much on a CD.

The ideal purchase point is still $23 to $25 for either bonds or preferreds from a recognizable, investment-grade-rated company—and when the timing of the issue means you do not face forcible redemption for several years. We looked and, as usual, there are still possibilities. We don't know why, but some of the best are baby bonds from electric utilities. For example, **Georgia Power** 5% notes (GPJ-A), rated BBB and not callable until October 2022, are listed at $24.17, for a yield to call of 5.9%. **NextEra Energy**, owner of Florida Power & Light and a massive wind and solar generating operation, has 5.25% notes (NEE-K) rated BBB and callable in June 2021 for $24.60, which also means a yield to call of 5.9%. Among non-utility offerings, **Prudential Financial**, the life insurance company, issued 5.625% notes (PRS) callable in August 2023. They are listed at $24.72, for a yield to call of 5.9%.

Bondholders precede preferred stockholders in the payment queue, but we're not too fearful of blue-chip bank and utility defaults now. A more important distinction is that bond interest is taxable at ordinary rates, but preferred dividends can qualify for a maximum 20% bite. It depends on the issuer's identity. If the issuer is a bank, insurance company, utility or industrial firm, the dividends probably qualify. Bank of America, First Republic, JPMorgan Chase, KeyCorp and U.S. Bancorp all have fresh tax-qualified preferreds with 5.5% to 6% coupons that are changing hands at about $25 with call protection until 2023. Allstate Insurance and MetLife do as well.

Real estate investment trusts are frequent issuers of preferred stock, and their credit is fine. But because REITs are tax-advantaged, REIT preferred dividends get taxed at ordinary rates—unless, of course, you put the shares inside an IRA. That's a fine idea with fixed-to-floating-rate preferred issues or those that yield several percentage points more than the same REIT's common stock. **Federal Realty** 5% preferred (FRT-C) is callable in September 2022, and at $23.15, the yield to call is 7.1%. Federal's common stock yields 3.1%, and the growth-oriented REIT, which develops landmark upscale residential-retail projects, raised regular dividends a mere 2%, effective this month. A 5% coupon and a likely price bump from $23.15 to $25 is as enticing.

We would caution against chasing the highest yields available despite the easy liquidity. Preferred shares and debt of junk-rated or non-rated issuers such as ocean shipping companies and biotechnology firms are often priced to yield 9% or even double-digits, but your principle should be that if you wouldn't invest in a company's common stock, its other securities are also likely to come under pressure. This is still about reliable income.

Timely Tactic of the Month

Taxable municipals have been unsung winners since the government created subsidized Build America Bonds in 2009. The BAB program soon ended, and the Treasury no longer pays part of the interest on new taxable munis. But the valuable originals are still in circulation, and even the nonsubsidized bonds appeal to investors who want high credit quality but don't need or qualify for the tax exemption. Even if you do, the category is compelling. **Invesco Taxable Municipal Bond ETF (BAB, $29.27, yield 4.1%, year-to-date return -1.9%)**, has a small total loss this year but a swell five-year annualized total return of 6.3%. That's better than all but six high-yield corporate bond funds and twice that of the average floating-rate bank loan fund.

Another Dispatch From the MLP Patch

Last month we declared that master limited partnerships, which own domestic energy infrastructure, were back in style. The Alerian total return index of 44 MLPs, called AMZX, is down 2.5% since August 17, but it's still ahead 21.4% from the end of March and 66.2% since a bottom in February 2016. Shortages of labor and steel will impede growth in 2019, but energy is prone to overexpansion, so a bit of restraint is healthy. We advise you to stay put or to buy more units, preferably of large midstream enterprises (pipelines, terminals, gas processing facilities, refineries) rather than drillers or specialized outfits such as suppliers of fracking sand. Many such non-diversified partnerships have slashed or eliminated cash distributions.

Alas, this is never an easy category to navigate. Despite the upward trend, there are chasms between many MLPs' 2018 and long-term returns, and outlooks and reputations vary widely. Clearly, there's overdue regression to the long-term performance mean. **Plains All-American Pipeline (PAA, $25.20, yield 4.8%)** has returned 26.9% this year and 17.0% since April 1 but still trades for half its usual price from 2012 into early 2015. **Magellan Midstream Partners (MMP, $68.34, 5.5%)**, one of the Kiplinger Income 25, is breaking even in 2018, a rare letdown. But Magellan has an unbroken 17-year string of dividend raises and a spectacular 19.4% annualized 10-year return. Even when struggling, MLPs pay a high yield and offer a low correlation to the stock prices of major oil companies. Shares of Phillips 66 and its primo pipeline-and-terminal spinoff **Phillips 66 Partners (PSXP, $51.91, 5.8%)** move together only 36% of the time. If you own either, you should own both.

It's still best to accumulate individual partnership units despite the complexity of the K-1 tax forms. MLP funds with 25% or more in partnership units owe corporate income tax. If you still prefer a fund, some leveraged MLP CEFs trade at a decent discount to net asset value. **Kayne Anderson MLP/Midstream (KYN, $18.37, 3.3%)** is 4.8% below and, because of losses carried forward, isn't currently a taxpayer. Its 10-year average return of 7.0% is lousy and its 2018 year-to-date 3.8% is dull, but KYN has had a few monster years. In 2013, it returned 42.3% against 27.6% for an ETF that tracks the Alerian index.

> **While fundamentals are sweet, MLP investors face some fresh technical issues.**

Our best plan, though, is to pick and choose leaders like Magellan, Plains, **Enterprise Products Partners (EPD, $29.23, 5.9%)** and spinoffs like PSXP and the partnership simply known by the initials **MPLX (MPLX, $36.07, 7.0%)**, child of Marathon Petroleum. As with Phillips, Marathon's common shares (MPC) and MPLX units are a nice pair. To be creative—albeit raising the risk—we've highlighted some newer MLPs active in Appalachian natural gas. These include **Antero Midstream Partners (AM, $30.08, 5.5%)** and **CNX Midstream Partners (CNXM, $19.15, 7.0%)**, both of which are up in 2018.

We'd be remiss not to report that although the fundamentals are sweet, MLP investors face some fresh technical issues. The corporate tax-rate cut will likely encourage other MLPs to follow pioneer Kinder Morgan and reorganize as corporations. Ryan Carney, a partner and MLP expert with the Houston law firm Vinson & Elkins, says a possible reason is that partnership investors expect higher yields and quarterly dividend boosts than at corporations. Partnership managers might therefore shed the obligation to pass through as much cash because that motivates them to borrow or issue new units to finance construction projects. Should you sell in the face of a conversion? Yes, if you are told to expect a reduced cash payout and your priority is maximum income. You're also facing a switchover from deferred taxation on all or part of MLP distributions to standard tax treatment of corporate dividends. And it's not as if partnership units never gain value.

At the same time, we like the erosion of general partner (insider and boss) "incentive distribution rights," which guarantee them a payout before rank-and-file investors get any dividends (you're a limited partner, remember). Some of our favorites never had IDRs and they are now rare among long-established MLPs. If times get tough again, we'd say no to IDRs.

Kiplinger's 25 for Income

The combination of flattish inflation and interest rates alongside brisk economic growth is favorable for the 25. This month provided no blockbuster price gains—Pimco Corporate & Income Strategy rose the most, at 2.7%—but a few of our bond funds increased payouts and saw their net asset values stay put or gain 0.2% to 0.6%. Annaly Capital Management fell 4.1% as the mortgage REIT announced a new stock issue that expands the trust's share count by 6%. Annaly also confused some with a surprise 22-cent partial dividend, but that was a consequence of a completed merger; Annaly went on to pay its usual 30-cent regular quarterly rate (which remains in effect despite the expanded share base). The travails in foreign credit tell us to do with one less selection in that area, so we say adios to Templeton Global Income and hallo to Eaton Vance Floating-Rate Income Trust. EFT is a leveraged closed-end bank loan fund with an attractive 6% discount to NAV and a 6% year-to-date total return. The borrowing means it's riskier than a regular bank loan mutual fund, but the discount and the leverage enlarge the monthly distribution.

Utility stocks		**Price**	**Yield**	**Frequency**
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	$72.60	3.4%	quarterly
AT&T (T)	Wireless-service giant that grew out of the former SBC	33.60	6.0	quarterly
CenterPoint Energy (CNP)	A major U.S. gas utility and owner of Houston Electric	28.92	3.8	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York and New England	52.43	5.9	semiannually
High-yielding open-end bond funds				
Aberdeen Global High Income (BJBHX)	Intermediate-term corporate bonds from all over the world	$8.91	3.9%	monthly
DoubleLine Total Return (DLTNX)	Income fund that makes the most of mortgage securities	10.36	3.4	monthly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	10.09	3.8	monthly
Fidelity New Markets Income (FNMIX)	Impressive emerging-markets bond fund	14.65	4.7	monthly
Hotchkis & Wiley High Yield (HWHAX)	Excellent high-yield fund that concentrates on small companies	11.90	5.6	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund that is currently cautious	13.45	3.8	monthly
Closed-end mutual funds and ETFs				
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	$11.66	7.2%	monthly
Dreyfus Municipal Bond Infrastructure (DMB)	*A leveraged closed-end fund that likes transportation and hospital bonds*	*12.28*	*5.2*	*monthly*
Eaton Vance Floating-Rate Income Trust (EFT)	One of the oldest floating-rate loan funds, with the same manager since launch in 2004	14.78	5.6	monthly
iShares U.S. Preferred ETF (PFF)	This exchange-traded index fund spreads your money in more than 300 preferred stocks	37.34	5.6	monthly
Nuveen Municipal Value (NUV)	*This non-leveraged closed-end is an alternative to the Dreyfus Infrastructure fund*	*9.47*	*3.9*	*monthly*
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	18.84	7.2	monthly
Real estate investment trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	$10.24	8.7%	quarterly
Digital Realty Trust (DLR)	Developer and operator of data centers in the U.S., Canada, Europe and Asia	124.89	3.3	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 578 straight monthly dividends	57.66	4.6	monthly
Welltower (WELL)	Develops and owns assisted-living facilities, hospitals and medical labs	66.19	5.3	quarterly
Energy investments and partnerships				
Brookfield Infrastructure Partners (BIP)*	Owns toll highways, ports and transmission lines	$39.68	4.7%	quarterly
Cedar Fair (FUN)*	Partnership that owns theme parks coast to coast	53.18	6.7	quarterly
Magellan Midstream Partners (MMP)*	One of the largest pipeline carriers of gasoline, diesel and chemicals	68.34	5.5	quarterly
Occidental Petroleum (OXY)	A mostly domestic oil and gas producer	77.58	4.0	quarterly
Suburban Propane Partners (SPH)*	Propane distributor yields about four percentage points more than junk bonds	23.15	10.4	quarterly

Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of September 14, 2018. SOURCES: Fund companies, Morningstar Inc., Yahoo.

Lise Metzger

Ask Jeff

Readers are invited to send questions about income investments to jkosnett@kiplinger.com. I'll answer you personally if there's no space here for a published reply.

Dear Jeff:
I am keen to add more fixed-to-floating-rate preferred stocks, which I think will earn 6% with less risk than I expect now from common stocks. Your letter has mentioned some good ones, and I own several. But where can I find information on new offerings and current shares' yields and prices?
Craig

Dear Craig:
These hybrids pay a fixed coupon for five years. Then the issuer can redeem the shares at par value, or the yield resets to LIBOR plus a pre-established premium. Despite their attractiveness, information is scarce. I suggest you subscribe to and filter a dedicated preferred-stock database. I subscribe to www.cdx3investor.com (fee required), which tracks hundreds of preferreds and $25 par value bond units (see the story on page 3). The site's tables list both fixed-to-floating and fixed-rate offerings. Typically, higher-rated utilities, insurers, and banks like Bank of America and U.S. Bancorp issue fixed-rate shares, while energy firms and partnerships, REITs, and non-bank lenders issue fixed-to-floaters. I advise owning both types to diversify among issuers and to stagger the timing of maturities. Also, some preferred dividends qualify for the lower tax rate applicable to common shares.

Dear Jeff:
Can I get a 2.5%-to-3.5% yield with minimal risk to my principal through, say, 2025? I plan to buy income annuities with the savings on which I want to earn the yield, but I'm not ready for that yet.
David

Dear David:
Normally, I don't recommend Treasury bonds for growth-and-income accounts. But for full faith and credit with low duration, you can't easily beat simple two-year T-notes, available from any broker or direct from the Treasury. Two-year Treasury debt yields 2.78% and the duration is less than 2, so you're unlikely to lose money even if the whole interest-rate curve lifts a little. If you prefer funds, all of the leading no-load families offer short-term government bond funds.

Dear Jeff:
Much of my current fixed-income portfolio is in two funds, Pimco Income and Vanguard High-Yield Corporate. I want to be a little more defensive. What about trading some high-yield-fund shares for intermediate-term California bonds (I live there)?
Steve

Dear Steve:
First, kudos for choosing two funds whose five-year average total returns exceed 5% and that have basically broken even in 2018. Both are keepers. Vanguard High-Yield Corporate, part of our Going for the Max model portfolio, has a favorable 43% in double-B bonds and much less in CCC debt than the typical junk fund. Pimco Income has a changeable and complex array of assets. But it yields a fine 5.2% for a fund with low duration, and it has a splendid long-term record. It is a sound destination for anyone who wants to shift from high-yield but not get too conservative. California bonds, though, offer more after-tax yield to state residents, and some closed-end funds that invest in California debt are still trading at gigantic discounts to net asset value. Sounds like a plan.

Dear Jeff:
Speaking of municipal bond closed-end funds at discounts, what about Pennsylvania?
Vaughn

Dear Vaughn:
Eaton Vance and Nuveen each run two Pennsylvania CEFs, and BlackRock and Invesco run one each. All six currently trade at 11.5% to 14.5% below NAV, but only NPN, the Nuveen Pennsylvania Municipal Value Fund, was recently trading at a premium. NPN is the sole unleveraged fund of the six, so its distribution rate is 3.7% while the others are over 4%. But the lack of borrowing implies that NPN would be the safest during a rate spike or in the event of trouble with Pennsylvania's credit; the state is rated a weak A+ by S&P but a better Aa3 by Moody's. The funds all own such stalwarts as Pennsylvania Turnpike bonds, and school and general obligation bonds of rich suburbs and counties.

What's New in Cash

Banks pay more—to depositors and shareholders. There is an indicator, called deposit beta, that measures how banks' payments on deposits correlate to changes in Federal Reserve interest rates. According to research from Baird, it is finally on the ascent, meaning fewer and fewer banks can get away with keeping savings and CD rates far below what you can collect from money market funds or by buying notes and bonds direct from the Treasury. (For bank rates, shop locally or use our Rates and Yields chart.) At the same time, banks are also igniting dividends. Even Citigroup and Wells Fargo, for all their problems, hiked dividends recently by 41% and 10%, respectively. The reigning bank-dividend champ is Comerica, which doubled its quarterly payout from 30 cents to 60, effective with October's distribution. That's almost back to its pre-crisis 66 cents in 2008. Comerica's share price has tripled since 2016, and yet, with the bigger dividend, the shares still yield 2.6%.

The REIT winning streak is safe. American property-owning real estate investment trusts last had a losing year in 2008. But the winning streak fell into jeopardy in the first quarter of 2018, when the FTSE/NAREIT index of all such REITs lost 6.7%. However, a roaring comeback by retail and health care trusts has restored the index for the year to date. It's now up 3.3% and therefore a favorite to stay on track to chase the record of 12 consecutive positive years (from 1975 through 1986). A slew of retail-strip and mall REITs returned upward of 10% over the past three months as Amazon panic receded and robust consumer spending continued.

America's payday got (just a little) bigger. On the first day of February, May, August and November, AT&T and Verizon pay a combined $5.6 billion to the owners of 6.4 billion T shares and 4.1 billion shares of VZ. Verizon's 2.1% dividend hike, effective in November, sweetens its quarterly pot by $52 million. But what lies ahead for AT&T's dividend after its Time Warner mega-merger is a wild card, because it now faces new and different risks. It's unlikely AT&T would cut or freeze its payout, but its boost next year might fall to a fraction of a cent. At least if the merger seems to be working, T shares should bounce out of the low $30s toward $40.

RATES AND YIELDS

MONEY MARKET FUNDS

Taxable	Yield	Phone Number
Vanguard Prime MMF Inv. (VMMXX)	2.09%	800-662-7447
Invesco Premier Portfolio Instl. (IPPXX)*	2.07	800-525-8085
Category Average	**1.60%**	
Tax-Free	**Yield**	**Phone Number**
Vanguard Municipal MMF (VMSXX)	1.37%	800-662-7447
Northern Municipal MMF (NOMXX)*	1.18	800-595-9111
Category Average	**1.03%**	

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to September 4, 2018. SOURCE: *Money Fund Report*

BENCHMARKS

	Year Ago	3 Months Ago	This Month
Inflation rate*	1.90%	2.80%	2.70%
Six-month Treasury	1.17	2.07	2.33
One-year Treasury	1.28	2.35	2.56
10-year Treasury	2.20	2.94	2.99

*Year-to-year change in CPI as of August 2017, May 2018 and August 2018. SOURCES: Bureau of Labor Statistics, U.S. Treasury.

CERTIFICATES OF DEPOSIT

Six Months	Yield	Phone Number
My eBank (Fla.)	2.20%	855-512-0989
TAB Bank (Utah)	2.12	800-355-3063
National Average	**0.38%**	
One Year	**Yield**	**Phone Number**
BankPurely (N.Y.)	2.65%	844-878-7359
iGObanking.com (N.Y.)	2.65	888-432-5890
National Average	**0.75%**	
Five Years	**Yield**	**Phone Number**
Connexus Credit Union (Wis.)*	3.25%	800-845-5025
M.Y. Safra Bank FSB (N.Y.)	3.25	212-652-7200
National Average	**1.32%**	

Yields include compounding and are as of September 14. *Must be a member. For information on deposit insurance, go to the website of the Federal Deposit Insurance Corp. (www.fdic.gov). SOURCE: Bankrate.com

FIXED ANNUITIES

Single-Premium Immediate-Annuity Monthly Payout Factor	Highest	Average
Male age 65	$545	$529
Female age 65	525	504
Male age 70	612	596
Female age 70	587	562

Payouts are guaranteed to the annuitant for life, with a minimum payout period of 10 years. Payout factors are per each $100,000. SOURCE: Comparative Annuity Reports (www.comparativeannuityreports.com). Annuity data are to September 2018.

Model Portfolio: Going for the Max

Here's an ode to wide diversification: Four of our 10 positions lost share price or net asset value, but the other six gained enough so that from May 11 through September 14, our $100,000 of virtual principal appreciated to $101,544, for a 1.5% gain, or 4.6% annualized. But wait: Thanks to dividend increases, a fat distribution increase by Global X Super Dividend, some quirks of the calendar, and the uptrend in yields on bonds and bond alternatives, Max passed out a splendid $3,114 of income. That's a 9.3% yield and $704 more than in the previous four-month period. The period's total return of $4,658 figures to an annualized 14%—much more than we anticipated when we closed June's write-up by saying, "We're keeping the portfolio as is and expecting better returns between now and October."

That proved true. But what's striking is that besides the international stocks and bonds, everything else worked regardless of category or riskiness. Compass Diversified Holdings rebounded from a two-year low price of $15.70 to a near-record $18.30. CODI is a regular corporation, though its strategy of owning controlling equity in small and medium-size enterprises resembles that of Ares Capital and other business development and investment companies. Compass invests in low-tech businesses and has never cut dividends in its 20-year history. We think it and Ares are complementary. Ares also had an excellent run from May through September, and raised its dividend for the first time in five years, albeit by just 2.6%.

Max also benefited from our decision last year to add real estate in the form of the Principal Real Estate Income Fund. Real estate should be a part of all income portfolios, though it takes a leveraged closed-end fund like this one to offer a distribution on the order of its 7.5%. It is not a substitute for a standard collection of REITs or a mortgage trust like Annaly.

In light of this performance, we are certainly not tempted to tinker with the portfolio. We'll skip any predictions of further high gains, though we'll be disappointed if the principal doesn't at least hold its value while you take home a yield of 7.5% or more.

Aberdeen Global High Income (BJBHX, $8.91, current yield 3.9%, one-year total return to Sept. 14, 2.0%) holds high-yield corporate bonds and bank loans.

Annaly Capital Management (NLY, $10.24, yield 8.7%, total return -4.7%). Annaly is a mortgage REIT that prospers from low short-term rates on debt it uses to invest in government-guaranteed mortgages.

Ares Capital (ARCC, $17.33, yield 9.0%, total return 19.7%). This business development company lends to emerging businesses and also benefits from a low cost of funds.

Compass Diversified Holdings (CODI, $18.30, yield 7.9%, total return 16.5%) is a holding company that owns long-term controlling interests in an assortment of small to medium-sized consumer businesses and pays a high fixed dividend. It is not a business development company like Ares Capital, which means it is not required to pay a minimum distribution or be heavily taxed.

Global X Super Dividend ETF (SDIV, $20.33, yield 7.3%, total return -0.2%) invests in about 100 of the highest-yielding solid small and midsize firms in the U.S. and overseas.

iShares S&P U.S. Preferred Stock ETF (PFF, $37.34, yield 5.6%, total return 1.5%) is the oldest and largest fund of preferred stocks, with more than 300 holdings.

Principal Real Estate Income Fund (PGZ, $17.61, yield 7.5%, total return 7.5%) is a four-year-old leveraged closed-end fund that combines debt instruments like commercial mortgage pools with a smattering of REITs and other income-paying realty stocks, both domestic and foreign.

SPDR S&P International Dividend ETF (DWX, $37.92, yield 4.5%, total return -3.8%) complements Global X by investing in 100 of the largest foreign companies known for paying high dividends.

Suburban Propane Partners (SPH, $23.15, yield 10.4%, total return 5.2%) distributes propane and other liquid fuels.

Vanguard High-Yield Corporate (VWEHX, $5.78, yield 5.3%, total return 2.1%) an excellent, and low cost, domestic junk bond fund.