Disciplined and confident investors survived 2020. Now, with the markets smartly recovered, we can exhale and look ahead. Experts debate whether the crash of 2020 set any precedents, or if prior norms of stock and bond valuation, inflation, interest rates, dividends, and so forth are back on track. We do take it on faith that the Federal Reserve is even more committed than it was before the pandemic to maintain low interest rates and liberal credit terms, because the Fed deems full economic recovery and employment to be at least one more year off, maybe longer. That implies stock and bond prices and other benchmarks are done going gaga but will stay within a comfortable trading range for the foreseeable future, with a slight bias to the upside.

For the markets, the calamity’s timing could have been worse. Last winter showed that there is no playbook for guiding a typical portfolio through a shock-and-awe bombardment in which the economy contracts by one-third and share prices shed 10% a week for an agonizing month. But savers and investors who lost big money and all confidence in 2008 were spared the fright of seeing banks and investment firms go belly-up all over again.

The weight of the evidence, therefore, suggests that most, if not all, familiar approaches are still viable post-COVID. That includes banking on the Fed to intervene, as well as counting on opportunistic or cash-rich investors to buy dips and corrections, pulling the herd with them. Ken Leech, chief investment officer of Western Asset Management, says consumer caution, illustrated by government figures showing less household debt and more cash in reserve, will repress inflation and interest rates. Leech says this behavior, however, implies slower-than-usual economic growth for many months—or several years—to come. Phil Toews, president of Toews Asset Management, is not terrified about the markets in 2021, but says the Fed eventually “may quit acting as a put against declines in risk assets,” argot suggesting the central bank might not have access to as many gazillions to repulse the next crash. Toews urges investors to take out casualty insurance by trimming high-risk investments early instead of waiting for the next crisis, because “it is hard to de-risk in the middle of high-risk events.”

Evidence suggests that most, if not all, familiar approaches are still viable post-COVID.

Here is a review of some common schemes and why we deem them unaffected by the pandemic. These practices are intended, of course, to smooth out risk over the short run as well as the long run, and they have resisted previous bear markets for the foreseeable future, with a slight bias to the upside.

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and recessions. In tough times, investing according to a plan (or a few plans) always beats moving money randomly or hurriedly.

BHCG (buy, hold, collect and grow). This rests on the idea that your true dividend yield explodes over time when you calculate it on original or average cost. The driver is continual dividend increases. For example, the current yield on American Electric Power is 3.7%, which is fair enough. But if you bought AEP Electric Power shares 10 years ago, today’s $2.96 annual dividend works to 8.2% of the 2010 closing price of $36, when the utility paid $1.44. Last year saw more blue-chip companies cut, freeze or omit dividends than usual, but in the end, 2020 still marked a total-cash-dividend record. That’s because firms that did pay dividends increased them by an average of 8.3%, a slight drop from 2019’s raise but no cause for complaint with interest rates close to zero. Funds devoted to dividend growth struggled in 2020—the 12.1% total return of Vanguard Dividend Growth (VDIGX) trailed the S&P 500’s 18.4%—but let us not be greedy. BHCG still works. Carry on with tenacity.

Discount asset accumulation. This means buying closed-end funds and real estate investment trusts below net asset value, acquiring mortgage REITs and shares of other lenders when their net interest margin (the difference between cost of funds and interest earnings) is set to widen, or buying bonds at wider-than-normal spreads over Treasury yields. Wide bond spreads are scarce at this writing as 10-year and longer T-bond rates bump up, but variable-rate investments, notably floating-rate bank-loan funds, are starting this year with a bang. With closed-end funds, 2020 reiterated the power of entering an established CEF whenever its share price drops well below NAV. After the February crash, many tax-exempt bond CEFs traded 8% or more under NAV, although municipal bonds as a category stumbled only briefly. These discounts have since narrowed by half, on average, and a few are sprouting premiums again, including Nuveen Municipal Value (NUV), a member of Kiplinger’s (NUV), a member of Kiplinger’s 25 for Income. But at one point, NUV was deeply discounted and interest earnings (including Nuveen Municipal Value) are rising and earnings are growing fast, that’s great. But it doesn’t hurt to set a limit or make sure nothing gets top-heavy. We didn’t need COVID-19 to remind us of that.
Fine Young Income Funds

We normally advise that you should wait at least a year or two before investing in a newborn fixed-income fund. A start-up can mistime the acquisition of initial assets or languish for months with a massive slice of the original investors’ cash—cash that yields less than the fund’s expense ratio (even if it partly waives expenses). Many launches, especially of exchange-traded funds, are indistinguishable in style or objective from existing offerings.

But no rule is inviolable, and to the upside, a new fund won’t be weighed down by piles of richly priced and therefore vertiginous assets, such as long-term corporate bonds quoted at over 150 and debt subject to disadvantageous call provisions. Some newcomer funds invest in direct credit, or private placements, that are rare or inappropriate within a broad-based fund. Or the sponsor creates a clone fund—perhaps an exchange-traded version of a flagship mutual fund for fear the original is too big and unwieldy. Finally, a fund firm sometimes recruits management talent by offering a competitor’s star manager the opportunity to start a fund from scratch.

So, let us make exceptions for the following, or suggest you put these upstarts on the watch list for the next time you have fresh money to allocate. Returns are for one year through January 15, unless indicated otherwise.

**American Funds Multi-Sector Income** (MIAQX, $10.76, yield 3.9%, one-year return 9.9%). Some 46 years after starting the Bond Fund of America in 1974, the staid American Funds finally offered a true go-anywhere bond fund, with its largest holdings as different as Ford and Ethiopia. This huge company has enormous research resources, so we wonder what they were waiting for. The early returns are splendid.

**Baird Strategic Municipal Bond** (BSNSX, $10.69, 1.2%, 7.7%). In 2019, Baird lured Wells Fargo muni ace Lyle Fitterer out of retirement and turned him and his teammates loose. So far, the combination of short duration and medium quality for extra yield is exactly right.

**BlackRock Capital Allocation Trust** (BCAT, $21.60, distribution 5.7%, three-month return 5.9%). This closed-end is brand new, with BlackRock fixed income chief Rick Rieder in charge. Look for yeildy stuff like high-dividend stocks and mortgage bonds. Wait for a discount to NAV; the shares presently trade at a 2% premium.

**Catalyst Enhanced Income Strategy** (EIXAX, $11.32, 6.1%, 5.7%) is an aggressive mortgage fund whose packages of loans and other securitized credits have ratings that range from triple-A to junk and coupons that range from 0.5% to more than 6%. If you are a patron of DoubleLine’s mortgage funds, you diversify with this one. Its rookie year of 2019 brought a 16.7% return (compared with 5.6% for DoubleLine Total Return).

**Eventide Multi-Asset Income** (ETNMX, $13.63, 1.4%, 20.6%). From a small and unheralded firm comes a fund whose design and objectives channel a young Vanguard Wellesley fund. ETNMX cannot match Vanguard on expenses, but since its 2016 birth, Eventide has a substantial return advantage over Wellesley and is within a few ticks of the stock-heavier balanced fund Vanguard Wellington.

**James Alpha Structured Credit Value** (JASVX, $11.18, 4.0%, 14.1%) is a rare regular mutual fund that invests in private credit. That alone makes it interesting. But its returns since the IPO in 2018 are fine. We acknowledge that the expenses are high, but the fund is uncorrelated to regular bond funds.

**Loomis Sayles Credit Income Fund** (LOCAX, $10.32, 3.05%, three-month return 3.6%) strikes us as a new-generation launch in the tradition of 30-year-old Loomis Sayles Bond, whose performance has lagged the past three years. Dan Fuss’s successors are on the job at this newer and smaller fund.

**Metropolitan West Flexible Income** (MWFSX, $10.01, 5.8%, 12.0%) is a no-brainer, a new multisector fund that returned 18% in its first year of 2019 and another 12.2% last year—with a medium-quality but short-duration approach. Anytime MetWest or its parent, TCW, offers anything new, jump at it.

**PGIM Short Duration High Yield Opportunities** (SDHY, $19.70, 6.6%, opened November 2020). This closed-end short-term junk-bond fund is so new that we have little to go on, save our regard for PGIM for unambiguously and unswervingly investing primarily for yield—and doing it superbly. The monthly distribution is set at $0.108, and the shares were issued at $20 in November, so it is about breakeven so far. That will improve.
Tapping Into the Housing Boom

One imperative of income investing is to “follow the money,” or watch where cash is flowing fastest through the economy and position yourself on the receiving end. The U.S. housing sector is vibrant, especially home construction, improvements and upgrades. Discounted rents and unsold condos in places like Manhattan, San Francisco and Washington, D.C., are in the news, but nationally, residential prices advanced by 8.4% in 2020 and by more than 10% in in Phoenix, San Diego and Seattle. In October and again in November, just short of 7 million existing homes sold, the most in any month since 2005. Housing starts, or new construction, are at a 10-year high.

But structures themselves are not the whole story for investors. (We know you might own rental property, but direct ownership of real estate, although fine with us, is outside this publication’s writ.) A diversified approach is the Hoya Capital Housing ETF, or HOMZ, a two-year-old exchange-traded fund that splits its portfolio among residential real estate investment trusts, retailers, builders and services such as storage. HOMZ has a one-year return of 17.5%, including monthly distributions that are highly variable. But over the past four months its dividends mark an annualized yield of 6.7%. Some of its winners are Home Depot (HD, $276, yield 2.2%) and Lowe’s (LOW, $172, 1.6%), which boast one-year returns of 21% and 43% and splendid records of raising dividends. Both are expensive now to begin accumulating, but they may get cheaper. More to the point, if your funds show big 2020 returns, perhaps the managers knew to seize these opportunities because when someone buys a house, especially a fixer-upper, they rush to these stores.

Another popular sub-segment is REITs that buy and rent out single-family homes. Mergers have reduced the choices, and several other such REITs are nontraded and thus to be avoided, but American Homes 4 Rent (AMH, $30, 0.7%) and Invitation Homes (INVI, $30, 2%) are fine, with returns of about 8% over the past three months. The low dividend yields are consistent with our view of small REITs as tax-advantaged growth stocks, but both trade at 4% below their net asset values—although their footprints, rents and property values are growing. It is true that with mortgage rates so low, tenants tend to become homeowners. But we cannot call these REITs too late to buy, especially if the jobs and wage trends improve.

Another ticket to the housing bonanza is materials, from lumber to flooring to everything else that goes into a home. Many of these stocks pay little or no dividends, though Whirlpool (WHR, $195, 2.5%) is an exception, with a 7% annualized five-year dividend growth rate and a moderate ratio of dividends to earnings that suggests the firm has the capacity for continued increases. Timber REIT Weyerhaeuser (WY, $33, 2.0%) is a solid long-term holding, though it just changed its dividend policy from a high fixed payout to a lower quarterly dividend, with the intent of paying a variable special dividend once a year. Again, building-related REITs present as economically sensitive cyclical growth stocks rather than high-income payers.

Which leads us to ask, “What about fixed income?” Builders and real estate investors are mainly small-scale enterprises, so they do not issue much public debt, and what they do issue is likely to be illiquid or rated below investment grade. However, REIT preferred stocks are still available at fair yield; American Homes 4 Rent has several issues, including AMH-F and AMH-G, with 5.875% coupons and first call dates in 2022. They are trading between $25 and $26; if they fall to $25 par value, you would do well. The issues are rated BB, but the company is thriving.

Timely Tactic of the Month

Small-cap stocks are rolling. And if you can combine their share price gains with dividends, so much the better. Two WisdomTree ETFs, U.S. SmallCap Dividend Fund (DES, $28.17, yield 3.5%, year-to-date return 5.5%) and U.S. SmallCap Quality Dividend Growth Fund (DGRS, $41.73, 3.3%, 5.5%), have about half of their assets in financials and industrials, which makes them more alike than different, except that DES has thrice as many holdings as the newer and smaller DGRS. Normally, funds of small and midsize stocks are not known for dividends. So, a 3% or better yield with a shot at post-COVID economic growth appeals doubly.
The year started with stock prices soaring and interest rates creeping higher, a pattern generally good for stock funds and high-yield bonds and neutral for most everything else. It is premature to act on fiscal proposals from the Biden administration, and it is also unwise to overplay the rise in 10-year Treasury yields above 1% or crude oil’s bounce to an 11-month high. Keep your bond funds, and count on the income from pipelines and refineries. Mainly, this month’s mix is the umpteenth endorsement of patience and diversification, as winners and losers appeared in all sorts of categories. Gainers include American Water, up 7.8%; Digital Realty, up 4.8%; Eaton Vance Floating Rate, up 3.6%; and Brookfield Infrastructure, up 3.3%. Decliners also changed relatively little, led by AT&T’s 5.9% slide from $31.01 to $29.17, which merely moved T from the top to the midpoint of its post-crash trading range. Realty Income had a similar month but remains anchored in a tight range. There was no churn in dividends or fund distributions. And there are no changes to the list.

### Utility stocks

<table>
<thead>
<tr>
<th>Utility stocks</th>
<th>Price</th>
<th>Yield</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Electric Power (AEP)</td>
<td>$80.47</td>
<td>3.7%</td>
<td>quarterly</td>
</tr>
<tr>
<td>AT&amp;T (T)</td>
<td>29.17</td>
<td>7.1%</td>
<td>quarterly</td>
</tr>
<tr>
<td>American Water (AWK)</td>
<td>159.72</td>
<td>1.4%</td>
<td>quarterly</td>
</tr>
<tr>
<td>National Grid (NGG)</td>
<td>59.47</td>
<td>5.3%</td>
<td>semiannually</td>
</tr>
<tr>
<td>Xcel Energy (XEL)</td>
<td>64.96</td>
<td>2.6%</td>
<td>quarterly</td>
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### High-yielding open-end bond funds

<table>
<thead>
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<th>High-yielding open-end bond funds</th>
<th>Price</th>
<th>Yield</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>Baird Core Plus Bond (BCOSX)</td>
<td>$12.61</td>
<td>2.3%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Dodge &amp; Cox Global Bond (DODLX)</td>
<td>12.05</td>
<td>2.2%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Fidelity Capital &amp; Income (FAGIX)</td>
<td>10.84</td>
<td>3.4%</td>
<td>monthly</td>
</tr>
<tr>
<td>Hotchkis &amp; Wiley High Yield (HWHAX)</td>
<td>11.23</td>
<td>5.4%</td>
<td>monthly</td>
</tr>
<tr>
<td>Loomis Sayles Bond (LSBRX)</td>
<td>13.47</td>
<td>3.7%</td>
<td>monthly</td>
</tr>
<tr>
<td>TCW Emerging Markets (TGEIX)</td>
<td>8.37</td>
<td>4.6%</td>
<td>monthly</td>
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### Closed-end mutual funds and ETFs

<table>
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<th>Price</th>
<th>Yield</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>AllianceBernstein Global High Income (AWF)</td>
<td>$11.65</td>
<td>6.3%</td>
<td>monthly</td>
</tr>
<tr>
<td>BNY Mellon Municipal Bond Infrastructure (OMB)</td>
<td>14.37</td>
<td>4.4%</td>
<td>monthly</td>
</tr>
<tr>
<td>Eaton Vance Floating-Rate Income Trust (EFT)</td>
<td>13.93</td>
<td>5.4%</td>
<td>monthly</td>
</tr>
<tr>
<td>iShares U.S. Preferred ETF (PFF)</td>
<td>38.07</td>
<td>4.1%</td>
<td>monthly</td>
</tr>
<tr>
<td>Nuveen Municipal Value (NUV)</td>
<td>11.08</td>
<td>3.4%</td>
<td>monthly</td>
</tr>
<tr>
<td>Pimco Corporate &amp; Income Strategy (PCN)</td>
<td>16.98</td>
<td>8.0%</td>
<td>monthly</td>
</tr>
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### Real estate investment trusts

<table>
<thead>
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<th>Real estate investment trusts</th>
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<th>Yield</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>Annaly Capital Management (NLY)</td>
<td>$8.29</td>
<td>10.6%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Digital Realty Trust (DLR)</td>
<td>136.45</td>
<td>3.3%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Realty Income (O)</td>
<td>58.65</td>
<td>4.8%</td>
<td>monthly</td>
</tr>
<tr>
<td>Welltower (WELL)</td>
<td>64.25</td>
<td>3.8%</td>
<td>quarterly</td>
</tr>
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### Energy investments and partnerships

<table>
<thead>
<tr>
<th>Energy investments and partnerships</th>
<th>Price</th>
<th>Yield</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brookfield Infrastructure Partners (BIP)*</td>
<td>$53.45</td>
<td>3.6%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Magellan Midstream Partners (MMP)*</td>
<td>45.53</td>
<td>9.0%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Suburban Propane Partners (SPH)*</td>
<td>15.45</td>
<td>7.8%</td>
<td>quarterly</td>
</tr>
<tr>
<td>Valero Energy (VLO)</td>
<td>58.30</td>
<td>6.7%</td>
<td>quarterly</td>
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Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of January 15, 2021. SOURCES: Fund companies, Morningstar Inc., Yahoo.
Ask Jeff

Dear Jeff:
I am retired, and upon the first news of COVID shutdowns last year, I bought shares of Realty Income for the monthly payout and the continuous dividend growth. But I am not overjoyed with my (unrealized) capital loss of about 25%. What do you think?
Norm

Dear Norm:
Alas, your timing was unfortunate. The price of $58.65 is way off its low-$80s high in early 2020, a downturn worsened by concentrated closures of Realty Income properties such as gyms and theaters. But I dislike sacrificing high-quality investments because they’re suffering transitory losses, and Realty Income is a prime example. It retains a low amount of debt (with 90% of it at fixed rates), an investment-grade credit rating and vast numbers of healthy tenants, including convenience stores and national chain pharmacies. In January, the REIT had no trouble selling new shares at $57 to finance more properties, so $58.65 appears the bottom, or close to it. The stock’s gigantic premium over net asset value in the mid $50s has shrunk considerably. Realty Income is a growth company, now trading at an elevated yield of nearly 5%, whose business (like so many other enterprises) was interrupted by the pandemic. But it is obviously well positioned to bounce back when more of the economy fully reopens. Meanwhile, those regular dividends are secure.

Dear Jeff:
As electric utilities have been poor performers for a few months, how do you judge whether the sector is a keeper, it’s something to buy more of on the dips, or its fundamentals are going sour?
Richard

Dear Richard:
I reiterate my thoughts above about Realty Income: I object to selling good stuff because of a wobble, as opposed to a scandal or the business becoming vulnerable to obsolescence. (Example: high-cost oil drilling in marginal places.) The vast majority of U.S. utilities are first-rate, with fine cash flow and excellent credit ratings. They benefit rather than feel competitive pressure from wind and other renewable energy production. So, until and unless utilities cannot maintain or raise dividends—which would happen only if customers cut back on power use and many missed payments—there is no reason to downgrade the category. The shares are presently alternating up days and down days, but the combination of decent dividend increases with lower P/Es puts most current yields back over 3%, sometimes above 4%. It is a buyer’s market.

Dear Jeff:
I am a New Jersey resident, and I wonder what you think of New Jersey in-state bond funds such as MUJ, BlackRock’s leveraged closed-end New Jersey fund?
Michael

Dear Michael:
I am comfortable with MUJ, and here’s why: For years, I have seen warning after overheated warning about the perils of bonds from states such as New Jersey, Connecticut and Illinois, which have poor or middling credit and ongoing budget problems. And yet bondholders have done okay. Moody’s rates Jersey A3, and S&P cut the state’s rating to BBB+ in November. That is weak compared with, say, North Carolina’s straight triple-A. But you get a tax break investing in home-state bonds, and New Jersey’s general obligation debt has strong legal protections. Plus, many other borrowers, such as the state’s counties and the New Jersey Turnpike, are rated better than the state. MUJ’s one-year return of 3.6%, despite the pandemic, is fine. And now the Biden government and Democratic Congress want to aid debtors such as school districts and local public colleges. A different question is whether this closed-end is better and wiser than BlackRock’s, Fidelity’s or Vanguard’s regular New Jersey mutual funds. MUJ has a higher long-term return than all of those and trades 10% below net asset value, a cushion in case the distribution is cut (although it was just raised). Only briefly in the past 10 years has MUJ’s share price fallen harder than Black Rock’s mutual’s NAV. Stay with it. And do not bemoan those Turnpike tolls. You are paying yourself.

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What’s New in Cash

**Same Dogs in town.** The 10 highest-yielding Dow Jones industrial average members are the Dogs, and eight of them are the same in 2021 as in 2020, which is unusual. Merck and Amgen are new, though, and their prospects are better than ExxonMobil (ejected from the average) and no worse than Pfizer, which is an ex-Dog because its share price has perked up with its starring role in developing a COVID vaccine. From 2010 to 2018, the Dogs strategy beat the S&P 500. But 2019 was a downer, and last year the pack lost an average of 8% despite the S&P’s 18.4% gain. If you are drawn to cheap stocks with high dividends, here is an idea.

**Massive Treasury bond demand.** Yes, the government is raising trillions, but buyers are as eager as ever (if not more so) to snap up its bonds—which should prevent yields from climbing too far, too fast. In an auction of new 30-year bonds in the second week of January, investors offered bids for 2.47 times the amount of bonds offered. What’s more, international demand is raising trillions, but buyers are as eager as ever (if not more so) to snap up its bonds—which should prevent yields from climbing too far, too fast. In an auction of new 30-year bonds in the second week of January, investors offered bids for 2.47 times the amount of bonds offered. What’s more, international investors, who had been dialing back on Treasury purchases, are back in force. Contrary to what you might think, government bonds’ early 2021 losses are slim and unlikely to get worrisome.

**A rare and odd bailout.** In January, the closed-end Voya International High Dividend Equity Fund (IID) voted to liquidate by end of March. This has never been much of a fund, with a terrible 2% annualized total return over 10 years and a habit of returning big chunks of capital, but IID suddenly rallied 14.5% in one week on this news because liquidating a CEF logically makes a discount to net asset value shrink or disappear. This fund spent most of 2020 trading close to 20% below its NAV. So, ironically, it is possible to get extremely lucky buying a fund that objectively qualifies as a dismal failure—if you or someone else can only convince the bosses to close shop.

**Vanguard joins the active bond ETF movement.** The apostles of indexing have either seen the future or joined the enemy by unveiling plans to offer an actively managed ultra-short bond ETF, its first active bond ETF of any kind. The calling card will be the likely expense ratio of 0.10%, which undercut, say, the 0.25% of Northern Ultra-Short Income or the 0.35% from Fidelity Conservative Bond Fund. This really is pinching pennies, but when yields are already way below 1%, well, everything counts.

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**Flashback**

Six years ago this month, we published an item with the headline, “A 4% Dividend Strategy That Sidesteps Oil.” It was a two-pronged discussion. One angle was to predict that slumping oil and natural gas prices foretold that “energy-stock dividends are likely to be depressed for a while.” That was an accurate assessment. The first quarter of 2015 was the last time BP Prudhoe Bay Royalty Trust paid a fat dividend of $2.68; its next payout was $1, and the oil trust, whose production is greatly diminished, today pays intermittently. Early in 2016, ConocoPhillips became the first in a parade of worldwide oil giants to burn its quarterly dividend, cutting it from 74 cents to 25. ExxonMobil is the exception, with a still-intact 87-cent quarterly dividend that works to a 7.3% current yield. We have never flatly said to eliminate all energy investments, but we encourage energy income-seekers to concentrate on pipelines and utilities and skip drillers and producers.

In the same article, we described an energy-lite dividend strategy from a Kansas City–area investment adviser, Meritage Portfolio Management. At the time, it offered its own mutual funds, but it left that business and is now a private high-net-worth and institutional manager, albeit one that still emphasizes dividends. Meritage’s game is to filter high-yielding stocks in any sectors that are usually less volatile than the S&P 500. In 2015, this included obvious choices like AT&T and Verizon, and then a grab bag. We offered six ideas: Altria (MO); GlaxoSmithKline (GSK); Lockheed Martin (LMT); Quality Systems (NXGN), which renamed itself NexGen Healthcare and changed its symbol from QSSI; Superior Industries (SUP); and Zurich Insurance ADRs (ZURVY). This approach spread investments among various industries and company sizes, with then-current yields as high as 5.9%.

As you might suspect, this sextet did not make perfect harmony. Lockheed Martin has been a huge success. Zurich, owner of Farmers Insurance, has also worked well. Unfortunately, though, the other selections went nowhere or downhill, and NexGen Healthcare stopped paying dividends in 2016. In the main, the strategy of accumulating high-yielding blue-chip shares of growing companies is reliable. Some of our other stalwart dividend suggestions, notably American Water, Illinois Tool Works and many real estate investment trusts, have done so well someone is probably happily retired on the proceeds. But not every company can manage itself and its dividends as well through challenging economic conditions. Such is the reality of investing.
Model Portfolio: Going for the Max

Go back a full year, and our highest-yielding model resembles an utterly foolish strategy exacerbated by dismal investment selection. Nothing here returned much more than 5% over the past 12 months, reminding us of bygone days when various bonds and bond alternatives were mocked as “certificates of confiscation,” or with phrases less decorous. But if you saw the final sentence of our previous report on this maximum-yield portfolio, you should share our sense of vindication. “Better to be patient and trust that the markets—which we know are not the same as the economy—will stay positive until we meet again in early 2021,” we wrote in October 2020, strongly suggesting the 13.6% return between May and September would continue.

Well, now it is time for our rendezvous, and it is a happy one. We are pleased to report that all 10 of Max’s components produced solid positive returns between September 16 and January 15, despite signs that the U.S. and most foreign economies are far from healed and may be backtracking after a furious summertime rebound. For this period, $100,000 invested equally in the 10 listings grew to $110,886, or 10.9%. Tack on this period’s $2,513 of interest, dividends and capital gains distributions, and the total gain is $13,399, or 13.4%, which is more than 40% annualized for a second straight four-month period. That proves last winter’s wipeout did not end the widespread appetite for high-yield investments.

Perhaps you could argue the reverse. Oftentimes, when an investment is priced to yield 10%, it’s a sign that the payout is endangered. But if the enterprise generates adequate cash flow and holds a collection of clearly cromulent assets, the high yield may instead simply mean it is on sale. Both Ares Capital, a business development company with a sound bunch of borrowers, and Compass Diversified, a high-dividend consumer-and-outdoorsy holding company, got crushed during that savage sell-off but did not come close to insolvency. Neither cut dividends, and now their share prices are closer to pre-pandemic levels than to the bottom. Do not quit on long-term winners with good business models that are among the best in their categories, unless you are desperate for cash or are de-risking for the duration. The shares of both Ares and Compass rose 23% over this period and still yield more than high-yield bonds and many mortgage REITs.

Speaking of which, Annaly Capital is also scrambling back into its pre-COVID price range of $8 to $10. And if long-term interest rates go up faster than short-term ones (but not too fast), its profit margin will expand and solidify its dividends. We have stuck with Annaly for its high current yield and pronounced it too late to sell at $5—a tough call, but a righteous one.

Once again, we went through the list and decided not to replace any of the members. It is true that that the 12-month total losses (through January 15) on three of these are 20% or worse, but the current uptrend looks real.

Aberdeen Global High Income (BJBHX, $8.93, current yield or distribution 4.4%, one-year total return to September 15, 4.7%) holds medium- and high-yield corporate bonds from a range of borrowers.

Annaly Capital Management (NLY, $8.29, 10.6%, –4.3%) is returning to its original playbook of investing in government-guaranteed home mortgages.

Ares Capital (ARCC, $17.20, 9.3%, –0.3%) lends to emerging and midsize businesses of many kinds.

Compass Diversified Holdings (CODI, $21.45, 6.7%, –8.1%) is a holding company that owns and advises assorted consumer and recreational brands.

Global X Super Dividend ETF (SDIV, $13.20, 9.2%, –19.9%) invests in 105 small and midsize companies.

iShares S&P Preferred Stock ETF (PFF, $38.07, 4.1%, 5.6%) is the oldest and largest preferred stock index fund.

Principal Real Estate Fund (PGZ, $12.16, 7.9%, –37.0%) is a leveraged closed-end real estate credit fund.

SPDR S&P International Dividend ETF (DWX, $37.01, 5.7%, –4.3%) is a large-cap counterpart to Global X.

Suburban Propane Partners (SPH, $15.45, 7.8%, –22.9%) distributes fuels.

Vanguard High-Yield Corporate (VWEHX, $5.98, 4.3%, 5.1%) is a low-cost domestic junk-bond fund.