APRIL 2018, VOL. 7, NO. 4

Kiplinger's Investing for Income

Strategies to Boost Your Cash Yield

The Lowdown on Higher Rates

Many of us are hardwired to link advancing interest rates to escalating market risk and explosive daily swings. The prospect of rate increases might be so unnerving as to put you on the cusp of liquidating your long-term bonds and high-dividend stocks. Is it time? Perhaps, if you can live forever off your savings ... pension and annuities ... rental income ... and Social Security. But that's rare, and although higher interest rates complicate investing, they can also offer extra income. So relax, and reserve the high anxiety for true horrors: rampant inflation, failing banks, slashed dividends.

Do The Math

Interest-rate pressure can attack specific sectors. The most direct peril is to Treasury bonds because their returns are mathematical. When the government pays more to borrow, older, lower-coupon T-bonds lose value. Less evident is that the smaller a bond's original yield, the faster its principal erodes when rates ascend; when rates rise from a higher plane, principal doesn't erode as fast. The prospect of forfeiting years of yield is why we have refused to endorse long-term Treasuries since we started this letter in 2012.

There's more emotion and less precision in how markets treat utilities, real estate investment trusts, corporate and municipal bonds, and preferred stocks.

For now, sellers and would-be sellers are getting air cover from Warren Buffett, who is breathlessly bashing bonds and beseeching believers to avoid the "terrible mistake" of holding too many fixed-income investments or their equivalents. Much as we admire Buffett, though, we don't share his dark view. Nor would it apply uniformly to everyone.

> There are sensible strategies and ideas to help navigate these cross-currents.

We concede Buffett's point for brief intervals. We doubt the Dow Jones industrial average would have crashed in February had the 10-year Treasury yield held at 2.5% instead of approaching 3%. But it still hasn't crossed 3%, and besides, bonds remain a haven and a hedge against political and economic shocks. Treasury yields fell as stocks threw a fit over President Trump's steel and aluminum tariffs, which threaten bull-market engines such as Boeing, Caterpillar and Deere. In any case, long-term interest rates still have a gap to cover before they become menacing. The 10-year Treasury "would have to go over 3.25% before the markets would fall into negative feedback loops," says Matt Toms, chief fixed-income officer for Voya Investment Management (formerly ING). We've read and heard from others that the Rubicon is 4%.

If stock prices and economic growth stall, we expect interest rates to hold the current range

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rather than revert to 2016's lows. Fortunately, stocks and bond alternatives are more vulnerable to high inflation than to gently rising rates. "I remember a day when higher rates were good for the economy," says John Lynch, the chief investment strategist for LPL Financial. As for bonds, Lynch doubts that businesses, consumers, and others would struggle to repay debts even if new credit costs them more. Many have locked in cheap long-term financing, and millions have sub-4% mortgages good for 20-30 years.

What To Do

Still, there are some sensible strategies and ideas to help you deal with these cross-currents:

Stocks. Prevailing interest rates are the price of credit, so you should see who is selling credit at higher prices. Big banks are a so-called crowded trade; that is, too many investors are chasing too few names. BB&T, JP Morgan and M&T—banks that never lost money in the financial crisis—trade at their highest ratios to book value since the recession. Dozens of bank stocks, big and small, are up 10% or more in 2018.

But banks are also early in a multiyear campaign to raise dividends substantially. All of the top 20, except Wells Fargo, look good. Local and regional banks, which you can bundle via the exchange-traded **iShares US Regional Banks (IAT, $53.40, yield 1.9%**, one-year return 15.5%) and **Power Shares KBW Bank Portfolio (KBWB, $58.37, 1.9%, 19.1%)**, are also in favor. We recommended IAT at $44 in September 2017's letter, and there's no reason to think it has peaked.

Readers are asking about REITs (and utilities) after their lousy 2017 and the current gloom from interest-rate bumps. REITs work best as permanent core holdings that feature dividends and property values that grow year after year, regardless of swings in share price. If you feel like picking up some shares while they're down, now's the time. **Realty Income**, an original member of the Kiplinger Income 25, fell below $50 in February for the first time since 2015 and trades at just $51—although its net asset value is $50, and it usually fetches well above NAV. And even as its shares slid, Realty Income raised its dividends every month, a streak now at 86. The current yield is 5.1%. Another Kip Income 25 REIT, **Digital Realty Trust**, just declared an 8.6% dividend rise and yet trades 4% below its $111 NAV and yields 3.8%. Property REITs overall now average a 16% discount to NAV, while historically they've traded at or close to par. The gap won't vanish overnight, but fine properties are out there for 84 cents on the dollar: recession-style pricing.

Bonds. Now's the time for trying strategies such as barbells, ladders and, as we've written several times of late, floaters. The idea is to be able to reinvest returned capital at higher yields. A barbell is a combination of short-maturity debt—such as two-year Treasuries and short-term corporate notes—and higher-yielding, longer-term bonds, which may even be junk. A ladder is a series of stepped-up bonds (or CDs) with higher yields and rolling maturities. It's designed for 10 or more individual bonds, but you can simulate it with the various **Guggenheim BulletShares ETFs**, funds that have pre-established maturities for each year from 2019 to 2027. BulletShares' flaw—a buildup of yield-free cash toward the end of each year—is less of a fault now that money market yields are well off zero. Another timely thought is convertible bonds, which do not yield much but are doing well because of their tie-in with stocks. Eli Pars, co-head of convertible strategies for Calamos Investments, says that over the past 20 years, whenever the 10-year bond yield has gone up by a percentage point, convertibles have produced positive returns.

Short-term repositories. As we described last month in the Juiced-Up Cash model portfolio, the best road to 2% now goes through a short-term Treasury fund or a floating-rate online savings account. This better yield makes it less painful to hold cash while you ponder what to do next.

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Stormy Weather or Climate Change?

Savers and investors, unlike traders and adventurers, prefer quiet markets. We're with you. That's why we chastise those who complain that calm markets hinder their pursuit of fast profits. We are certain that our readers didn't applaud when the Dow Jones industrial average flashed 1,600 points of red on February 5. Most of us prefer steady seas, even if we have a wish list of investments to acquire once the price is right, and knowing for that instant the price got righter. Experts traced the twin crashes to computer-aggravated trading, although the spark for the loss was an unexpectedly high monthly inflation reading. It's premature to say that Wall Street is tilting negative on the U.S. and world economy. In a few trading days, the likes of Boeing, Intel and J.P. Morgan Chase re-established 52-week high prices.

However, after three satisfying weeks of recovery, White House saber-rattling about trade, without warning, led traders to pound stocks all over again. "Bull markets used to be a lot more fun," says Mike LaBella, a strategist for QS Investors, part of Legg Mason, referring to the suddenness of the sell-offs. "Climate change is not happening just yet, but stormy weather is upon us," chimes Chris Hyzy, the chief investment officer for the wealth management division of Bank of America. We agree, and we advise you to brace for three or four more equal gyrations later this year—but we also emphasize that you should not misread corrections or near-corrections as the end of the nine-year uptrend.

We asked Hyzy and some other strategists for guidance in managing through turmoil. Some of this may seem obvious. But it bears repeating because, in addition to the return of wide swings, we're emerging from a period when CCC-rated junk bonds and super-speculative stock sectors such as biotechnology routed the top-grade indexes. That's a sign of froth.

Keep your solid core, but prepare to adjust your portfolio at the margins. Many, if not most, of your oldest stocks, mutual funds, real estate investment trusts and specialty investments pay a superb yield calculated on your original cost. Mark these as keepers and then evaluate everything else.

Understand your satellite holdings. We suspect many people have only a vague idea of how some of their newer or nontraditional investments, such as flexible bond funds, are priced relative to standard yardsticks such as Treasury yields or the price-earnings and price-to-book-value ratios of stock sectors or Standard & Poor's 500-stock index. If you aren't sure whether something is too expensive for comfort, it's fair game to trim or eliminate it, taxes or not.

Trim leverage and avoid credit-fueled speculations. It is the worst of all times to dabble in exchange-traded funds that promise double or triple the daily movement of this or that index (and often fail anyway). You haven't a clue when a dreaded black swan will cost you heavily on such gambles. More broadly, rising interest rates afflict deeply indebted companies, trusts and partnerships, so while you cannot avoid all investments that borrow, see that the cash flow easily covers the interest or dividend bill. Closed-end funds are another place to winnow debt. CEFs with 15% or 25% leverage now make more sense than those that use 40%, unless you can strike for a deeper-than-usual discount from the net asset value.

Rebalancing is an opportunity and not just a chore. The brains at Janus Henderson funds praise rebalancing for "replenishing diversification" and "locking in gains from random price fluctuations." Translated, this means you should expect to see the price of everything jump around more. Every element of your portfolio will have moments when it is unusually cheap or dangerously expensive. In a few months—or maybe weeks—this situation is likely to reverse. We're not saying you should pull levers all day long. But stay on guard to make more adjustments in 2018 than you did in 2016 and 2017.

Timely Tactic of the Month

It's telling when we interview two people from different segments of the markets and both tell us to look at the same specific investment rather than just a sweeping category. Our guys suggested **Legg Mason Low Volatility High Dividend ETF (LVHD, $30.45, yield 3.4%, one-year return 5.1%)**. We like it. The premise is "defensive equity," which mimics our Green Swan portfolio by emphasizing low debt, high and sustainable dividends, and strong market positions. It holds a bunch of REITs and utilities, including many of our favorites. If you've ever wondered whether one fund or ETF replicates our stock-side ideas across the first seven years of this newsletter, LVHD is the best fit.

Surprises in Closed-End Stock Funds

The preponderance of closed-end funds invest in bonds and borrow about 30% against them to turbocharge their monthly or quarterly distributions. Scores of other CEFs do the same with preferred stocks, real estate investment trusts, utilities and master limited partnerships. Only a handful of closed-ends offer basic growth or income-and-growth common stock portfolios, but many that do combine fine capital gains with higher cash payouts than regular (open-end) mutual funds with comparable holdings. The closed-end structure also shields managers from disgorging great gobs of shares during disruptive but fleeting market plunges. And while nearly every stock index is at or near its record, equity CEFs generally trade below net asset value, which is a comfort as well as an opportunity.

We gratefully credit one of our readers for the suggestion that we study this easily overlooked type of security. (Keep the ideas coming, please!) When we probed, we found instances where the same people who manage prominent open-end funds also supervise parallel closed-end funds—with lower expenses and superior results. That can make you lament the shortage of closed-end stock funds, given the hundreds of redundant mutuals and weird exchange-traded funds.

A clear-cut case: the Royce funds, the venerable experts at running no-load funds of small- and midsize-company shares. **Royce Micro-Cap Trust (RMT, $9.60, discount to NAV 10.0%, distribution 7.6%, one-year total return 26.9%)** is the closed-end alternative to Royce Micro-Cap (RYOTX) and Royce Micro-Cap Opportunity (ROSFX). The latter two employ the same managers as RMT and hold a lot of the same stocks—but RMT has lower expenses and better numbers. Also, the CEF pays a quarterly distribution; the open-end funds do not. While most of RMT's payouts are long-term capital gains and not dividends (micro caps pay small dividends, if they pay them at all), the CEF still collected a decent 1.3% of investment income on its holdings, which provides a margin of safety.

Equity CEFs generally trade below NAV, which is a comfort as well as an opportunity.

Another CEF, **Royce Value Trust (RVT, $15.93, 9.4%, 7.4%, 24.2%)**, resembles Royce Pennsylvania Mutual Fund down to the average market capitalization of its holdings. But RVT has a better record and pays well, while Pennsylvania has been iffy for most of the past decade and yields less than 1%. RMT and RVT still sell below net asset value. That is common with this pair, but there's always the chance the discount will narrow and boost the two funds' relative performance even more.

We aren't rejecting Royce's regular funds, which offer good growth. But Royce's CEFs strike us as underappreciated and versatile. Mark them down as possibilities along with these worthies:

Cohen & Steers Infrastructure (UTF, $21.55, 11.0%, 8.7%, 10.6%). This fund can diversify your stake in Kiplinger Income 25 stalwart Brookfield Infrastructure Partners. It also taps a middle-of-the-road selection of utilities, high-yield REITs and pipelines, and it includes some preferred stocks for extra yield.

Eaton Vance Tax-Advantaged Dividend (EVT, $22.55, 4.3%, 7.8%, 14.3%). Besides telling you that EVT has been great since 2015, we report that it blows away the open-end albatross called Eaton Vance Dividend Builder Fund. That one's a mystery.

John Hancock Financial Opportunities (BTO, $40.33, premium to NAV 2.8%, 3.7%, 17.1%). We love John Hancock's regular regional bank fund, but here you get a similar array at a fair price and with a higher distribution. BTO also has a huge edge on Vanguard's financial-stock index fund.

Special Opportunities Fund (SPE, $15.06, discount to NAV 11.0%, 8.9%, 14.0%). This is not an exact fit because it invests in other closed-ends, but the upshot is that you get some good stocks at cheap prices and ride along with the managers as they exploit some unusual situations and depressed securities.

Tri-Continental (TY, $27.24, 11.0%, 3.9%, 22.0%). There's no leverage, just low expenses; a blue-chip, dividend-heavy portfolio; and a strong history that dates back to 1929.

Kiplinger's 25 for Income

Last time, we advised everyone to shake off the retreats of February and await a recovery. This is exactly what is happening. More than half of the 25 gained value since February 9, with only four losses of 2% or more, three of them in energy. REITs and utilities recovered from their pounding last month; Realty Income rose 5.3%, American Electric Power gained 4.8% and National Grid climbed 4.0%. Essentially, many of our funds and stocks had fallen to the lower boundaries of their usual price range and have begun to float a bit higher. Annaly, for example, bounces between $10 and $12, and AT&T between $33 and $40. What matters most if you own these securities is that they keep up the dividends, and there were no dividend cuts. In fact, there were several increases, led by Brookfield Infrastructure Partners' 9.3% raise. In general, all income investments settled down as bond prices and interest rates moved little and stocks survived. We expect more of the same this month and next. No changes.

Utility stocks		Price	Yield	Frequency
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	$67.81	3.7%	quarterly
AT&T (T)	Wireless-service giant that grew out of the former SBC	37.00	5.4	quarterly
CenterPoint Energy (CNP)	A major U.S. gas utility and owner of Houston Electric	27.15	4.1	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York and New England	54.72	5.3	semiannually
High-yielding open-end bond funds				
Aberdeen Global High Income (BJBHX)	Intermediate-term corporate bonds from all over the world	$9.07	3.4%	monthly
DoubleLine Total Return (DLTNX)	Income fund that makes the most of mortgage securities	10.46	3.4	monthly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	10.29	3.7	monthly
Fidelity New Markets Income (FNMIX)	Impressive emerging-markets bond fund	15.86	4.8	monthly
Hotchkis & Wiley High Yield (HWHAX)	Excellent high-yield fund that concentrates on small companies	11.99	5.7	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund that is currently cautious	13.61	3.5	monthly
Closed-end mutual funds and ETFs				
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	$12.00	7.0%	monthly
Dreyfus Municipal Bond Infrastructure (DMB)	*A fund that owns many road and transportation bonds*	*12.23*	*5.2*	*monthly*
iShares Standard & Poor's U.S. Preferred Stock (PFF)	ETF with hundreds of preferred stocks	37.67	6.0	monthly
Nuveen Municipal Value (NUV)	*No leverage here, so less yield than Dreyfus Infrastructure but more safety*	*9.38*	*4.0*	*monthly*
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	16.88	8.0	monthly
Templeton Global Income Fund (GIM)	A combination of emerging markets and rich countries' government bonds	6.35	4.3	monthly
Real estate investment trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	$10.62	11.3%	quarterly
Digital Realty Trust (DLR)	Developer and operator of data centers in the U.S., Canada, Europe and Asia	106.37	3.8	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 572 straight monthly dividends	51.47	5.1	monthly
Welltower (WELL)	Develops and owns assisted-living facilities, hospitals and medical labs	54.00	6.4	quarterly
Energy investments and partnerships				
Brookfield Infrastructure Partners (BIP)*	Owns toll highways, ports and transmission lines	$41.00	4.6%	quarterly
Cedar Fair (FUN)*	Partnership that owns theme parks coast to coast	66.56	5.3	quarterly
Magellan Midstream Partners (MMP)*	One of the largest pipeline carriers of gasoline, diesel and chemicals	62.49	5.9	quarterly
Occidental Petroleum (OXY)	A mostly domestic oil and gas producer	64.45	4.8	quarterly
Suburban Propane Partners (SPH)*	Nationwide supplier and distributor of LP gas and similar fuels	23.80	10.1	quarterly

Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of March 16, 2018. SOURCES: Fund companies, Morningstar Inc., Yahoo.

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 buy individual municipal bonds, and when I sort them by yield, triple-B bonds pay the most. Is there any reason for me to buy higher-rated municipals? I live in New Jersey, where the general obligations are A-minus but plenty of other kinds of bonds are BBB or Baa.
Richard

Dear Richard:
I have no qualms with BBB (or Baa) municipals, and in fact I've been known to josh that in corporate bonds, BBB stands for "buy, buy, buy." Triple-Bs make up the largest slice of investment-grade corporates. Triple-B munis are relatively scarcer, but those are still investment-grade, and there are almost no defaults of investment-grade municipals (or lower-rated ones, for that matter) outside of debt for such speculative developments as privately run prisons and senior-citizen housing projects. So more pertinent than the rating is the combination of current yield and yield to maturity, if the bond is callable, and, previewing the next question, the personal after-tax value of double and triple tax exemptions. New Jersey taxes are high enough that N.J. residents usually benefit by owning in-state tax-exempts. Dozens of New Jersey state transportation and hospital bonds, and others issued by cities and counties, are priced to yield more than 4% for 10 to 20 years, making them attractive today. Plus, New Jersey's new governor has proposed raising taxes to support the state's troubled pension system. The extra exemption could become more valuable to you.

Dear Jeff:
To stash cash for preservation, which is better for a taxable account? Two-year certificates of deposit at 2.5%, where the interest is fully taxed, or two-year Treasuries at 2.3%, where I do not have to pay state tax?
Jerry

Dear Jerry:
We often overlook the state tax exemption on Treasury bond interest (it's federal law, not your legislators' generosity), but it can be material if you live in a high-tax state such as California, where the marginal individual rate tops out at 12.3% and is 9.3% for married tax filers whose taxable income starts at $107,960 and for singles who earn just $53,980. For most Americans, however, the CD still provides a net advantage—though you're mentioning a tip-top bank rate, well above the 2.1% national average. But there's more to this choice than a few dollars in taxes. The Treasury note is liquid, while the CD locks you in for two years unless you pay a penalty. Then again, the T-note can lose a little market value if you need to sell before the two years pass. But in all candor, the difference is minimal. The real story is that rates on both are higher than they've been in many years, and you get maximum safety.

Dear Jeff:
I own Government Properties Income Trust (symbol GOV), a REIT that leases its properties to state and federal government agencies. This seems like a low-risk business, so why is GOV priced so low that the current yield is more than 12%, even though the dividends have been steady since 2012? Shouldn't the shares be more like $20 instead of $14?
Steve

Dear Steve:
We've sometimes found it worth a shot to jump into a long-established security whose fallen price lifts the yield into double digits. But GOV is much more complex and riskier than its moniker suggests. Only 60% of its revenue is from federal tenants; plenty of those tenants lease old buildings; and many of their leases will expire this year and next. If the IRS, FBI, ICE and others move out of these regional offices, the trust faces massive renovation costs before it can replace these lessees with private tenants. GOV also has one-fourth of its assets in shares of Select Income REIT (SIR), an unimpressive retail and suburban office REIT under the same management. And while GOV has consistently paid its 43-cent quarterly dividend, it hasn't raised it. And now current cash flow (funds from operations) doesn't cover it, so the 43 cents is not ironclad. This is a second- or third-rate REIT, and even the best REITs aren't cruising. It's clearly a gamble.

Lisa Metzger

What's New in Cash

The bond shortage lifts. One of the key drivers of bond returns over the past few years has been too much money chasing too few issues. But that shortage is lifting as the Treasury and corporate America (and Europe) rush to issue bonds in what Bank of America strategist Hans Mikkelsen calls a "bondnanza." There were lesser spikes in the volume of unusual debt securities, such as "green bonds" and catastrophe bonds (risky insurance-company debt that omits the interest if the insurer must pay big claims for earthquakes, tornadoes and such). There's one soothing back story, though: The new prohibition on some municipal refinancings, paired with localities' reluctance to build, points to fewer muni bonds being issued in 2018 than in 2017—another reason why we expect tax-exempts to outperform taxables this year. Plus, banks won clearance to count municipals as liquid assets for regulatory purposes. They'll snap up whatever is lying around.

An MLP hiccup made in Washington. Shares of master limited partnerships fell hard on March 15 and again on March 19 after U.S. regulators stripped some pipeline operators of an obscure but valuable tax deduction. Analysts who cover MLPs said the market reaction was out of proportion and exacerbated by indiscriminate dumping of ETFs. The ruling does not affect oil and gas terminals and refineries, and it impacts only certain pipelines, so the selling should cease soon. In the worst case, a few partnerships might nick a penny or two from future dividend increases, but don't give up on the recovery.

Jeffrey Gundlach changes his tune. The DoubleLine Funds founder and prophet gained fame for two prognostications: He outsmarted Wall Street by accurately expecting interest rates to stay low (and bonds to rally) in 2014, 2015 and 2016, and he called the presidential election surprise. In March Gundlach announced he's officially bearish on all bonds except possibly 30-year Treasuries, should they hit 3.25%. Gundlach also asserts that the stock market will have problems with rising bond yields. We're not as glum about stocks, but we also don't expect Treasury and most other taxable bonds to deliver positive total returns this year. Keep them for the income and feel free to roll over returned principal, but don't think there are steals and deals around.

RATES AND YIELDS

MONEY MARKET FUNDS

Taxable	Yield	Phone Number
Invesco Premier Portfolio Instl. (IPPXX)*	1.52%	800-525-8085
Vanguard Prime MMF Inv (VMMXX)	1.50	800-662-7447
Category Average	**1.03%**	
Tax-Free	**Yield**	**Phone Number**
Vanguard Municipal MMF (VMSXX)	0.96%	800-662-7447
BNY Mellon Natl Muni MMF (MOMXX)	0.77	800-645-6561
Category Average	**0.60%**	

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to March 6, 2018.
SOURCE: *Money Fund Report*

BENCHMARKS

	Year Ago	3 Months Ago	This Month
Inflation rate*	2.70%	2.20%	2.20%
Six-month Treasury	0.89	1.48	1.96
One-year Treasury	1.01	1.71	2.08
10-year Treasury	2.53	2.35	2.85

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

CERTIFICATES OF DEPOSIT

Six Months	Yield	Phone Number
Live Oak Bank (N.C.)	1.95%	866-518-0286
Crestmark Bank (Mich.)	1.90	855-267-6445
National Average	**0.27%**	
One Year	**Yield**	**Phone Number**
Live Oak Bank (N.C.)	2.15%	866-518-0286
M.Y. Safra Bank FSB (N.Y.)	2.12	212-652-7200
National Average	**0.49%**	
Five Years	**Yield**	**Phone Number**
Popular Direct (Fla.)	2.75%	800-274-5696
Third Federal Savings and Loan (Ohio)	2.75	800-844-7333
National Average	**1.10%**	

Yields include compounding and are as of March 16. *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	$534	$518
Female age 65	509	492
Male age 70	602	584
Female age 70	568	551

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 March 2018.

Model Portfolio: Dividend-a-Month

'Twas an eventful and briefly terrifying four months in the stock market, but when trading closed on March 16, the Dow Jones was a few days from a 441-point rally and the Nasdaq composite was just barely below its record close earlier in the week. So once again, it paid to stand firm. We're not here to suggest buys and sells anyway: Stocks are still in a bull market, and dividends, as we reported in March's letter, remain popular with companies and shareholders. The purpose of this portfolio is to collect multiple dividend checks (or cash wires into your brokerage account) every month, not track or beat the indexes over short intervals.

All told, the 12 members averaged a total return of 4% between November 10 and March 16, with seven gains and five declines. Standard & Poor's 500-stock index, dividends included, returned 7.3% for the same period. Our best performances were by Valero, up 16% (from $81 to $94) and General Dynamics, which rallied 12% (from $200 to $223). McCormick gained 11.3% and Intel rose 10.9% We tallied seven dividend increases, which is typical because many companies review their dividend rates at year's end and pay the higher rates starting in the new year's first quarter. Valero boosted its quarterly payment by 14.3%, which surely helped its shares. Other double-digit-percentage raisers are ADP, Intel and McCormick. It was not a grand four months for utilities and real estate investment trusts. American Electric Power dropped from $75 to $68, but did raise its dividend by 5.1%. Realty Income's price is uncommonly low now at $51, down from $56, but its dividends keep growing. The yield on your original cost may dwarf the current 5.1% for new purchases.

Our intent is to diversify this portfolio across the economy, but we also want excellent dividend growth, and so just as we dismissed Procter & Gamble last autumn, we're jettisoning Kimberly-Clark this month. We're not thrilled by Kimberly's 3.1% raise and the poor prospects for its product lines. By contrast, banks are able to boost dividends briskly again, and so we're substituting JP Morgan Chase in the July slot (which also means you get paid in January, April and October). JPM's current yield of 1.9% isn't super, but the bank's payout ratio is low enough to allow future generous dividend boosts, and there's no question about JPM's soundness. This is not the only good bank-stock idea, so you may well want to invest in several or use a sector fund instead. Over the last four months, JPM's shares went up from $97 to $115. Banks have a history of paying and raising dividends as strongly as any other sector.

January	February	March	April
Illinois Tool Works ITW, $171, yield 1.8% 5-yr dividend growth rate of 15.5%	**Valero Energy** VLO, $94, yield 3.4% 5-yr dividend growth rate of 38.0%	**Intel** INTC, $51, yield 2.3% 5-yr dividend growth rate of 5.9%	**McCormick** MKC, $108, yield 1.9% 5-yr dividend growth rate of 8.9%
May	**June**	**July**	**August**
CVS Health CVS, $66, yield: 3.0% 5-yr dividend growth rate: 17.3%	**WisdomTree MidCap** DON, $35, yield 2.5% 5-yr dividend growth rate of 1.9%	**JPMorgan Chase** JPM, $115, yield 1.9% 5-yr dividend growth rate of 13.3%	**Realty Income** O, $51, yield 5.1% 5-yr dividend growth rate of 3.9%
September	**October**	**November**	**December**
Johnson & Johnson JNJ, $134, yield 2.5% 5-yr dividend growth rate of 6.6%	**Automatic Data Processing** ADP, $117, yield 2.2% 5-yr dividend growth rate of 7.7%	**General Dynamics** GD, $223, yield 1.7% 5-yr dividend growth rate of 10.7%	**American Electric Power** AEP, $68, yield 3.7% 5-yr dividend growth rate of 5.7%