JULY 2018, VOL. 7, NO. 7

Kiplinger's Investing for Income

Strategies to Boost Your Cash Yield

Midyear Review: It's Still a Range-Bound World

Halfway through this eventful year in politics and economics, Standard & Poor's 500-stock index, including dividends, has a fair total return of 4.9%. But the Bloomberg Barclays aggregate index of Treasury and high-grade corporate bonds and mortgage-backed securities is off 1.9%. Municipals are slightly below break-even, junk bonds are a hair ahead, and most real estate investment trusts are still a couple points in the red after a horrible February. Only small-company stocks and crude oil are having all-star years. But all this doesn't bother us in the least—and it shouldn't tempt you to wreck your portfolio in haste or frustration.

Read on for our suggested tweaks, but first put into perspective any concern you may have that 2018 marked the arrival of a hostile investing environment. "I remind people that they should be happy because they've made a ton of money the past few years," says David Lafferty, chief market strategist for Natixis Asset Managers, parent of fund firms Loomis Sayles and Oakmark. Lafferty and other pros still deem the wisest reaction to flash crashes, bellicose trade disputes and Federal Reserve rate steps to be inaction, and we agree. "I've spent more time [in 2018] fighting the urge to do something than in my whole career," says David Ellison, a portfolio manager for Hennessy Funds.

So, at midyear, what have we learned? We've learned that the more things change, the more … (bet you can fill in the rest of the saying!). The relative returns by sector and category are consistent with the "equity risk premium,"

Put into perspective any concern that 2018 marked the arrival of a hostile investing environment.

the idea that as compensation for extra volatility and uncertainty in stocks and other "risk assets," you should beat bond returns three to five percentage points.

Word is circulating to be wary of gathering inflation. Not only does inflation headline analysts' running market commentary, but the hardest sell-offs this year—including the February 1,600-point midday shocker—all followed government data that suggested wages and prices were moving faster than Wall Street approves. Kiplinger's economic team projects that U.S. inflation will reach 2.6% by year-end. That would lock in full-year losses for bonds and bond alternatives, such as the shares of utilities, mortgage trusts and finance companies.

But the Federal Reserve's inflation target is 2%, not 2.6%, and chairman Jerome Powell reiterated in June that if price pressures persist above 2%, the Fed will tighten credit or figure out something else to slow it down. The resurgent dollar is a help because it foils the argument that the Fed needs to accelerate its rate-raising to defend the buck preemptively and ward off imported inflation.

continued on next page ...

Inside This Issue...

Unless otherwise noted, prices and data are as of June 15, 2018

... continued from previous page

Thus, prices of most investments, both those that pay interest and others that issue dividends, are protected from anything worse than one- or three-day plunges. We think by year-end, bonds and stocks will be in the same trading ranges as in the first six months of 2018, but just closer to the higher ends. And we'll stick with the herd that expects five more percentage points to the upside for stocks. If you want a year-end target, figure on 2900 for the S&P 500.

We're also seeing that whenever a key category backslides, value hunters or just plain symmetry restores order. Bond traders tell us they are not much concerned. "Higher interest rates on bonds seem to be attracting buyer interest, not scaring them away," says Warren Pierson, a senior bond manager for Baird Funds.

Tweaks and tactics. This takes us to our calls from January's look-ahead and a determination whether we now suggest adjustments. Our advice:

Stocks. If you like them, hold them. As you see on page 3, smaller companies and those with a majority domestic bent are in favor, while the stock market has already priced in large multinationals' tax cuts and share buybacks. We're seeing nice dividend increases—in May and June FedEx hiked its payout by 30%, UnitedHealth by 20%, Deere by 15% and Caterpillar by 10%--so, as we like to say, the income side of income investing is fine. We expect U.S. indexes to beat foreign ones, though that gap is not wide.

Bonds. We said don't fret if you lose about 2% this year, and we repeat it. We are still cautious about junk bonds despite their decent first half. Issuance is low because buyers are scarce and key sectors of high yield, such as telecommunications, are not in great shape. Contrariwise, the weak showing of investment-grade corporate bonds means there are buys there. Municipals are also fine. Tip: Gobs of municipal closed-end funds are available at wide discounts to net asset value now after those discounts had tightened or even flipped over to premiums late in 2017. Some of these movements are extreme: BlackRock MuniAssets fund (MUA) has earned a fine 1.5% on its portfolio assets so far this year. But MUA shareholders are bandaging a 10.5% total loss because its large premium is now a 6% discount. The fund's investment income covers its distributions, now running at 5%, so all we can say is closed-end funds do the darnedest things. We must keep looking.

Other interest-paying stuff. Yields and distributions on certificates of deposit, savings accounts, money-market funds and short-term bond funds will keep edging higher, tracking or anticipating the Fed's higher short-term rates. There's nothing wrong with building cash to redeploy on dips and slumps because you get paid better every month for waiting. Plus, floating-rate instruments such as bank-loan funds and fixed-to-floating-rate preferred stocks are excellent holdings and worth accumulating.

Real estate. If you look at year-to-date REIT returns, you'll be unhappy. If you ignore February, you'll smile. The interest-rate scolds had it in for REITs six months ago because property values and development depend on favorable financing. But long-term rates are stuck, and most REITs have refinanced old long-term debt anyway. A fresh burst of buyouts and mergers is bullish for lagging property subsectors.

Oil and gas. The Alerian MLP index has been on a roller coaster: way up in December and January, down in February and March, back up in April and May. If you're going to tap master limited partnerships for income, stay with them for the distributions and ignore the prices. Besides, although perhaps only half of the most widely held partnerships' units are up nicely this year, and some others are off in double digits, the income payouts keep increasing.

If all this leaves the impression that we're fans of inaction rather than bold action, you're correct. The first half of 2018 will be remembered for many things, but investment matters will not be near the top of the list.

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Small Companies, Big Dividends

Small and midsize stocks are on a tear. All 11 small-cap stock sectors gained in May. June wasn't bad, either, with the Russell 2000 index, which measures small and midsize U.S. companies by total market value, increasing to a year-to-date total return of 10.3% through June 15. The S&P SmallCap 600 index is ahead 11.7% year-to-date.

The surge owes some of its vigor to a belief that smaller U.S. companies are relatively shielded from trade disputes and currency shocks. Although that's true only on a case-by-case basis, the market buys it, so in these times of high trade tensions, smalls tend to outperform. There is also evidence that smalls, because of their less-intricate finances, benefit more directly from the corporate income-tax rate cut than tax-trick-and-shelter-wise multinationals. And, to be fair, even counting this year's advantage, small-company stock returns have lagged the Dow Jones industrials, the S&P 500 and the Nasdaq composite for three and five years. Ordinary cyclical forces are at work.

That said, there's another story here: the appeal of good and rising dividends. Turns out that since 1996, the subset of the Russell 2000 that pays dividends has returned substantially more than the full index. Some of the better-performing U.S. stock mutual funds and ETFs of late are small-stock portfolios that emphasize dividends. One is **ProShares Russell 2000 Dividend Growers ETF (SMDV)**. While its year-to-date total return of 4.6% through June 15 trails the full Russell 2000, SMDV's three-year average annualized 19.6% return is grand, and its 2018 results are not as weak as they seem because utilities and real estate investment trusts were so hard hit in February. Since March 1, the ETF has returned 9.8%. A competitor, **WisdomTree US SmallCap Dividend ETF (DES)**, has returned 11.0% since March 1 and 4.1% year-to-date. Based on their last 12 months' distributions and June 15 closing prices, SMDV yields 1.9%, and DES, 2.7%.

Both funds include some utilities and REITs, so at first glance they may seem to overlap with some of your other investments. But you may not own the smalls in those categories, which we advise because the lower-capitalization entrants in both categories have excelled. There's a history of local and regional gas and electric utilities selling out to multistate bigs at premium prices, although the supply of small utilities is shrinking due to these consolidations.

REIT mergers can often be puzzling deals in which a strong trust rescues (and then tries to fix) a weak one. But this year's rush of REIT acquisitions is more constructive than desperate. And, as usual, the property sector is showing that it can quickly shake off a slump. **IQ US SmallCap Real Estate ETF (ROOF)** lost 4.6% in January and 9.6% in February, but it is up 15.7% since March 1, led by a powerful rally in massively oversold strip-mall and shopping center REITs and continuing strength in hotels and industrial and warehouse trusts. ROOF's last quarterly dividend, declared in March, annualizes only to 2.7%, but its pattern is to pay less in the first half and then make higher distributions in fall and winter. That's because some of its investments issue a single year-end dividend or supplement a small regular payout with special late-year bonus dividends. If you hold ROOF shares past Christmas, expect a yield near 4% on the shares' current value.

Small banks are another key dividend source. Even if yours is now a branch of BB&T or Wells Fargo, the U.S. still has more than 400 publicly traded independent banks, mostly local and regional ones on the Nasdaq. Unlike the more controversial and closely-supervised giants, the smalls are known for steady dividends (sometimes because there are only a few shareholders and they want their money); yields don't generally measure up to REITs and utilities, but 2% to 3% is common. If you screen for banks with total market value under $2 billion, five-year average dividend growth of 8% or better, and a positive total return for the last year, you'll get solid citizens such as **Sandy Spring Bancorp (SASR, $41.83, yield 2.5%, year-to-date return 8.7%)**, and **Boston Private Financial Holdings (BPFH, $17.00, 2.8%, 11.7%)**.

Timely Tactic of the Month

One overlooked source of variable-rate income that's gaining value is "non-agency" home mortgages—that is, mortgages not guaranteed by, say, the VA or Ginnie Mae. These tend to be jumbo loans with adjustable or floating rates; in this economy, virtually all are current on their payments. Nearly half the assets of **Angel Oak Multi-Strategy Income (ANGLX, $11.22, yield 4.4%, one-year return 4.0%)** are currently in these mortgages, which helps account for the fund's strong returns over the past year.

Yieldcos Keep the Power On

There's been so much ado about yieldcos since we first mentioned them in 2015 that the past three years feel like ten. Although energy gurus and financial pundits still say "newfangled" and "cutting-edge" to describe these energy dividend growers, yieldcos have expanded and are more established after overcoming the slings and arrows of falling energy prices in 2016. This year, they're fighting the pressure from rising interest rates, which has hit some of the shares, but they are clearly able to provide consistent, high-yielding dividends. We recommended six yieldcos in April 2017, and our selections have since generated an average total return of 11.8%.

A yieldco buys wind, solar and hydropower farms and plants as they are spun off from independent power producers. Then it sells the power to established utilities or other distributors, which are often subject to requirements to add green energy to their total output. Shareholders earn income comparable to preferred stocks and junk bonds but with less risk and with the potential for dividend growth, helped by various tax breaks. And because such quality yieldcos as Brookfield Renewable Partners, NRG Yield and Pattern Energy Group can acquire highly profitable projects through "right of first offer" agreements, these wunderkinds of Wall Street have been able to shake off early skepticism.

In early 2017, yieldcos performed handsomely as energy prices revived from a dismal 2016. This year has been tougher. The shares aren't impervious to all market shocks, and you cannot regard them as temporary trading vehicles. "For the short-term shareholder, yieldcos are pretty scary," says Garvin Jabusch, chief investment officer for Green Alpha Advisors, in Boulder, Colo., who specializes in the category. He agrees that bumps in interest rates, the possible loss of tax breaks or political turmoil can cause intense pain, but there's no reason to think renewable-energy projects will soon be redundant or that coal and nuclear will claw back lost power-generation market share.

We recommended six yieldcos in April 2017, and our selections have since generated 11.8%.

We expect 3% yearly dividend growth and regard yieldco balance sheets as strong enough to support a payout of 80% of cash flow available for distribution. Here's a review of the six 2017 selections plus two additions:

Atlantica Yield (AY, $20.23, yield 5.8%, cumulative total return from March 17, 2017, to June 15, 2018, 1.2%, three-year dividend growth rate, NA). This yieldco has 22 assets in eight countries, including renewable-energy projects and conventional power generation and electric transmission lines.

Brookfield Renewable Partners (BEP, $30.20, 6.3%, 12.9%, 5.7%). With a market cap of $9.5 billion, BEP is a giant in this area, owning more than 250 renewable power facilities in North America, Latin America and Europe. It has also just upped its stake in TerraForm Power to 65%.

Hannon Armstrong Sustainable Infrastructure Capital (HASI, $18.49, 7.1%, 3.9%, 18.1%). Hannon is a REIT with high-quality loans on more than 175 clean-energy projects. The risk is that the spread between its cost of capital and the 5%-to-7% fixed-rate (often government-guaranteed) loans could vanish, but HASI professes to have strategies to handle this.

NextEra Energy Partners (NEP, $43.44, 3.9%, 36.2%, 27.0%). This prominent yieldco has at least 17 fully contracted wind and solar projects throughout North America and natural-gas interests in Texas.

NRG Yield (NYLD-A, $17.28, 7.2%, 12.4%, NA). The child of NRG Energy, this diversified yieldco owns, operates and acquires contracted renewable and conventional generation and thermal infrastructure assets.

Pattern Energy Group (PEGI, $19.35, 8.7%, 4.5%, 6.2%). Pattern owns 22 wind farms in the U.S., Canada, Mexico, Chile and Japan.

…and two more

Northland Power (NPIFF, $18.51, 5.0%, 3.4%, 3.6%). This Canadian yieldco produces electricity from natural gas and biomass as well as wind and solar. Some 60% of its construction and development pipeline projects harness wind.

TerraForm Power (TERP, $11.55, 6.6%, 9.8%, NA). Majority owned by Brookfield Infrastructure, TerraForm is in turn buying Spain's Saeta Yield for $1.2 billion, which will result in 25% of its wind and solar capacity serving Europe.

Kiplinger's 25 for Income

This month's results look flattish, but the 25 is rich in back stories. Most prices are at or near where they began; nothing gained or lost as much as 4%. But there's news, starting with AT&T and the approval of its massive Time-Warner merger, which removes uncertainty and some scorn from the shares. They've bottomed for now at about $32 and still pay a Brobdingnagian 6% yield. Welltower rose 2.2%, its third straight month up after it broke ground on a gigantic assisted-living building in Manhattan, the first such project in that New York City borough in anyone's memory. Annaly Capital Management, the planet's biggest mortgage REIT, tacked on 0.7% as it declared yet another 30-cent quarterly dividend. On a down note, we observe that although Pimco Corporate & Income Strategy's price rose 1.6%, its premium to net asset value is approaching 20%, and that is both unsustainable and worrisome. We have the right to remove overvalued success stories from the 25 as well as failures, and PCN's share price merits close scrutiny. We're waiting for its next report to shareholders this month.

Utility stocks		**Price**	**Yield**	**Frequency**
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	$65.05	3.8%	quarterly
AT&T (T)	Wireless-service giant that grew out of the former SBC	33.13	6.0	quarterly
CenterPoint Energy (CNP)	A major U.S. gas utility and owner of Houston Electric	25.89	4.3	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York and New England	55.25	5.3	semiannually
High-yielding open-end bond funds				
Aberdeen Global High Income (BJBHX)	Intermediate-term corporate bonds from all over the world	$8.98	3.3%	monthly
DoubleLine Total Return (DLTNX)	Income fund that makes the most of mortgage securities	10.41	3.4	monthly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	10.18	3.7	monthly
Fidelity New Markets Income (FNMIX)	Impressive emerging-markets bond fund	14.99	4.8	monthly
Hotchkis & Wiley High Yield (HWHAX)	Excellent high-yield fund that concentrates on small companies	11.92	5.7	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund that is currently cautious	13.43	3.8	monthly
Closed-end mutual funds and ETFs				
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	$11.55	7.3%	monthly
Dreyfus Municipal Bond Infrastructure (DMB)	*A fund that owns many road and transportation bonds*	*12.42*	*5.1*	*monthly*
iShares U.S. Preferred ETF (PFF)	ETF with hundreds of preferred stocks	37.58	5.9	monthly
Nuveen Municipal Value (NUV)	*No leverage here, so less yield than Dreyfus Infrastructure but more safety*	*9.59*	*3.9*	*monthly*
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	17.27	7.8	monthly
Templeton Global Income Fund (GIM)	A combination of emerging markets and rich countries' government bonds	6.14	4.9	monthly
Real estate investment trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	$10.48	11.5%	quarterly
Digital Realty Trust (DLR)	Developer and operator of data centers in the U.S., Canada, Europe and Asia	106.23	3.8	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 575 straight monthly dividends	52.97	5.0	monthly
Welltower (WELL)	Develops and owns assisted-living facilities, hospitals and medical labs	57.50	6.1	quarterly
Energy investments and partnerships				
Brookfield Infrastructure Partners (BIP)*	Owns toll highways, ports and transmission lines	$38.74	4.9%	quarterly
Cedar Fair (FUN)*	Partnership that owns theme parks coast to coast	65.46	5.4	quarterly
Magellan Midstream Partners (MMP)*	One of the largest pipeline carriers of gasoline, diesel and chemicals	68.20	5.5	quarterly
Occidental Petroleum (OXY)	A mostly domestic oil and gas producer	83.33	3.7	quarterly
Suburban Propane Partners (SPH)*	Nationwide supplier and distributor of LP gas and similar fuels	23.50	10.2	quarterly

Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of June 15, 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 own shares of iShares Emerging Markets Dividend ETF (DVYE), and Vanguard International High Dividend Yield Index ETF (VYMI). I consider both "set it and forget it" funds, but I wonder now whether I should be concerned about currency fluctuations.
Jonathan

Dear Jonathan:
Both funds are sensible permanent holdings. They complement one another because 85% of VYMI is invested in developed countries, while DVYE is concentrated in emerging markets. Currency-translation risk is minimal with VYMI; the fund hedges the dollar, plus it has big positions in oil companies and oil is traded in dollars. VYMI also holds consumer giants such as Novartis and Toyota with gigantic dollar-generating U.S. operations. However, a constantly rising buck could be trouble for DVYE because the fund is unhedged. iShares says it figures currency movements are embedded in the price and performance of the fund's stocks, so you don't get dinged twice by the dollar. And DVYE holds investments from countries with sound currencies; 26% of the fund is in Taiwan, whose dollar closely tracks ours.

Dear Jeff:
As an IRA investor, I can't take advantage of the municipal bonds' tax exemption. So, what do you think of including taxable municipals in my retirement account?
Charles

Dear Charles:
It makes great sense to hold Build America Bonds or funds such as BlackRock Taxable Municipal Bond Trust (BBN) in an IRA. Some of BBN's road and tobacco-settlement bonds have coupons of 6% and 7%, bigger than junk corporates although clearly investment-grade. States and localities sometimes issue tax-free and taxable bonds simultaneously because the much-higher-coupon taxables cater to pension funds, endowments and foreign investors who would otherwise buy only Treasuries because they do not benefit from the state and local tax exemption. That means you can find individual taxable munis on brokers' bond platforms.

Dear Jeff:
You endorse AT&T and Verizon for dividends, and we are contemplating adding to our positions in both. But with their shares falling since the beginning of the year, we've been holding back. What's the right way to think about this pair?
John

Dear John:
Both wireless companies easily cover their high dividends, so if quarterly cash is your priority, stay put. And if buying more shares doesn't unbalance your portfolio, add to your holdings when their share prices sink near 52-week lows. But if you first invested in Verizon at, say, $28, don't call May's retreat from $53 to $47 a loss. It's a fluctuation.

Dear Jeff:
How are business development companies faring today compared with banks, insurance companies and other financial sectors?
Gary

Dear Gary:
BDCs are high-interest-rate lenders to small businesses and enjoy the same tax-exempt status as mutual funds and other regulated investment companies. Partly because they aren't taxed—but also because their clients aren't the soundest of credit risks—BDC shares almost always trade to yield at least 8%, though they tend to lose net asset value as fast or faster than other financial firms, depressing or eliminating those returns. That said, the outlook for BDCs is hard to predict because BDC results can be all over the place. BDC officials are stating in shareholder reports that higher lending rates are good for earnings—unless there's a recession (or near recession) that fosters defaults and asset writedowns. Banks are saying the same. But since the February 2013 launch of BIZD, the VanEck Vectors BDC ETF, there's been little price relationship between BIZD and financial kingpins such as Allstate, Annaly Capital Management, Bank of America, M&T Bank and Wells Fargo.

Lise Metzger

What's New in Cash

Closed-end-fund follies. A fast check shows some unusually dramatic bounces in funds' premiums and discounts to net asset values. This is both a reaction to (mild) bond losses and wild price swings in certain underlying investments—and we think the movement is overdone. For example, in-state municipal-bond CEFs from New York and New Jersey are widely available at 10% below NAV after finishing 2017 much closer to par. That is despite surging demand for the bonds in response to the new tax law, which punishes high-income residents in places with high state and local income taxes. Corporate-bond CEFs are another case. For example, Western Asset Investment Grade Income Fund (PAI), an excellent active bond-picking fund that's 70% in single-A and triple-B corporates, commanded a premium for most of 2017; it now trades 7% below NAV, although it comfortably covers its 5.1% distribution from investment income. So bargain hunters, screen the CEF databases and prepare to get out your checkbook.

LIBOR is a nonissue. The British government's 2021 phaseout of the international interest-rate benchmark called LIBOR (London Interbank Offered Rate) is newsworthy to Americans because U.S. floating-rate investments often tie their payouts to the 30-day or 90-day LIBOR, and many of those securities aren't due to mature until well after 2021. But the chance that a replacement standard would benefit borrowers and harm investors is scant or nonexistent, says Eaton Vance's Jonathan Isaac, director of portfolio strategy. Other bond managers tell us it is as yet a non-event. Floating-rate investors should ignore the shrill reports and remember the fuss and fizzle of Y2K.

Vanishing junk-bond volume. Now that the volume of floating-rate bank loans exceeds total U.S. high-yield bond debt, you might smell an imminent junk shortage and imagine that a scarcity premium portends a junk-fund rally. But we're not as sanguine. Business prospects are diminishing for big junk-issuing sectors such as media, retail and energy exploration, elevating the risk of rating downgrades and default. Yields on these low-rated bonds aren't good enough yet to attract bottom-fishers en masse. Keep long-held junk funds, but don't be aggressive with new money.

RATES AND YIELDS

MONEY MARKET FUNDS

Taxable	Yield	Phone Number
Invesco Premier Portfolio Instl. (IPPXX)*	1.91%	800-525-8085
Vanguard Prime MMF Inv. (VMMXX)	1.90	800-662-7447
Category Average	**1.40%**	
Tax-Free	**Yield**	**Phone Number**
Vanguard Municipal MMF (VMSXX)	1.24%	800-662-7447
Fidelity Municipal MMF (FTEXX)	1.06	800-544-6666
Category Average	**0.86%**	

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to June 5, 2018.
SOURCE: *Money Fund Report*

BENCHMARKS

	Year Ago	3 Months Ago	This Month
Inflation rate*	1.90%	2.20%	2.80%
Six-month Treasury	1.13	1.95	2.07
One-year Treasury	1.21	2.07	2.35
10-year Treasury	2.16	2.82	2.93

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

CERTIFICATES OF DEPOSIT

Six Months	Yield	Phone Number
Limelight Bank (Utah)	2.05%	800-639-6015
First Internet Bank of Indiana (Ind.)	1.97	888-873-3424
National Average	**0.32%**	
One Year	**Yield**	**Phone Number**
AbleBanking (Maine)	2.50%	888-426-2253
Connexus Credit Union (Wis.)*	2.50	800-845-5025
National Average	**0.59%**	
Five Years	**Yield**	**Phone Number**
Connexus Credit Union (Wis.)*	3.25%	800-845-5025
Congressional Bank (Md.)	3.10	301-978-3290
National Average	**1.24%**	

Yields include compounding and are as of June 15. *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	$546	$528
Female age 65	520	501
Male age 70	612	594
Female age 70	579	560

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 June 2018.

Model Portfolio: Juiced-Up Cash

The more the Federal Reserve drives up short-term bank interest rates, and thereby pushes other short-term yields, the wiser it looks to hold 100% of your reserves in two places: floating-rate debt and/or money-market funds and online bank savings. If you sequester everything in those two buckets in anticipation of further Fed-rate-ratcheting, we would not protest. However, since 2012 we've advocated for a diversified cash portfolio and so, once again, let us tally it up and see if a multi-pronged cash approach is still superior. We traditionally target a 2% return for this portfolio, so the risk-free, no-drama yield of 1.91% on the top-paying taxable money-market fund (see the "Rates and Yields" table, on page 7) is competitive.

However, the last time we served up our Juiced-Up Cash, in the March 2018 letter, the top-ranked money fund paid 1.46%, and the category average was 0.96%. We generally beat that handily; the juicer duly delivered an annualized 1.78% between February 9 and June 15 as all seven of the components either made a profit or ended in an exact tie.

Our hypothetical $50,000 ended the period worth $50,297; $351 of interest gain was offset by $54 of lost principal, nearly all of it due to slight share-price declines for the ultra-short Northern and Pimco funds. It is worth noting that those and other mutual funds and ETFs are distributing higher monthly amounts per share since winter, a consequence of the Fed's effect on the short end of the interest-rate curve, as well as brisk economic growth.

Readers may recall we made several changes in the March letter, the most notable to double the allocation to online savings, which then paid 1.6%. You can now find a bit more than 2% there, so don't withdraw a penny.

Also in March, for the first time, we included a money-market fund, adopting Vanguard's Prime, then at 1.4% and now 1.9% (but if your money fund pays almost as much and it's convenient, don't switch). And, of course, Fidelity Floating Rate, the bank-loan portfolio, registered another winning term as its $7,500 stake advanced to $7,601. We continue to advise you to acquire floating-rate investments in all categories wherever they are available, not just in lieu of cash.

The ultimate question is whether we expect our assortment to yield more between now and October than the 2% now on offer without the merest of credit or market risk. It's hard to say. Plenty of banks are still reluctant to keep up with the market leaders, either because they are conservative or because they know they won't lose any depositors on Main Street to Wall Street and eStreet.

So, we're going to keep the juicer filled with the same goodies this time as last time—and expect to report next time that you got an annualized return of between 2% and 2.25%, enough to make the case that a wide net still makes sense. And although 2% or 2.25% isn't life-changing, the $300 and change will surely cover a few movies, ball games, or days at the lake or beach, unlike when cash yielded zero. Enjoy the summer. We will.

$13,750 Online savings account. At press time, the leader is Northpointe Bank at 2.05%.

$7,500 Fidelity Floating-Rate High Income (FFRHX, yield 3.7%). A fund with variable-rate assets can thrive in this interest-rate environment.

$7,500 One-year CD. AbleBanking and Connexus Credit Union each offer 2.50%.

$6,250 Vanguard Prime Money-Market Fund (VMMXX, 1.9%). Low expenses of 0.16% help produce a good payout.

$5,000 Pimco Enhanced Short Maturity Active ETF (MINT, 1.8%). The duration is still just half a year and the average maturity the same, yet the distribution is way above average for the category.

$5,000 Northern Ultra-Short Fixed-Income (NUSFX, 1.6%) adds some floating-rate notes to a common diet of Treasuries and short-term investment-grade corporates.

$5,000 Vanguard Short-Term Bond ETF (BSV, 1.8%). We won't go totally dark on interest-rate risk and this is an extremely efficient way to follow Barclays' index of one-to-five-year government and high-quality corporate bonds.