



BOB CARLSON'S

Retirement Watch

SPOTLIGHT SERIES

Bonds and Income Investing in a 0% Interest Rate World

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Cash (and Bonds) Are Trash

- **Income investors' problems:**
 - **Yields near 0%**
 - **Likely to stay low for years**
 - **Almost global situation**
 - **Inflation is rising**



“Safe” Investments Lose Money

0.18% One-Year CD rate

2.64% One-Year Inflation Rate

Equals: -2.46% real return

Guaranteed loss of purchasing power

Worse after taxes



Low Interest Rates Mean...

- **Negligible portfolio income**
- **4% rule doesn't work for conservative investors**
- **Forced to take more risk?**
- **No diversification effect**
- **Potential for bond market losses**



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TLT iShares 20+ Year Treasury Bond ETF Nasdaq GM + BATS

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20-Apr-2021 2:37pm

Open 138.45 High 139.76 Low 138.43 Last 139.66 Volume 5.7M Chg +0.80 (+0.58%) ▲



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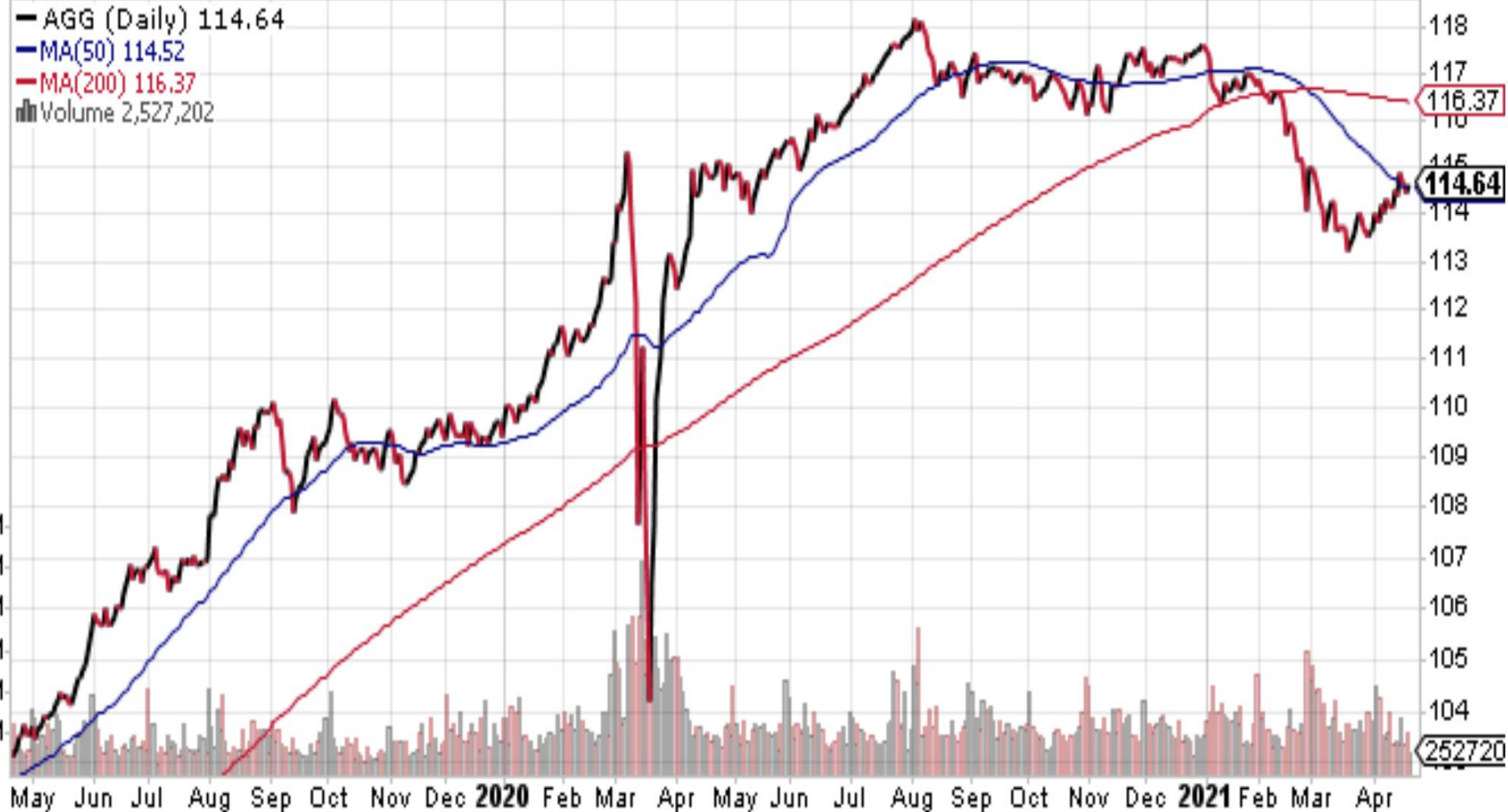
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AGG iShares Core U.S. Aggregate Bond ETF NYSE + BATS

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20-Apr-2021 2:50pm

Open 114.42 High 114.67 Low 114.39 Last 114.64 Volume 2.5M Chg +0.19 (+0.17%) ▲



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No way to win...

...so change the investment menu.

- **Seek alternatives**
- **Create new cash-flow streams**
- **Accept some more volatility**
- **Build a portfolio**



Broker CDs

- **Very low yields but...**
- **Better than at local bank**
- **No risk**
- **No extra cost**
- **Build a ladder**
- **Stay short, wait for rates to rise**



Preferred Rates From Preferred Securities

- **Higher yields**
- **Tax benefits**
- **Less interest rate risk**
- **Some credit risk**
- **Recession, bankruptcy risks**



Buying Preferred Securities

- **Can buy individual issues**
- **Limited resale market**
- **Need diversified portfolio**
- **Probably should buy new issues only**
- **Some brokers won't help**



Preferred Securities Vehicles

- **ETFs, mutual funds, closed-end funds**
- **Many relatively new**
- **Index or active management?**
- **U.S. or global?**
- **How important are fees?**
- **Leverage?**
- **Don't over-emphasize yield**



Preferred Securities Vehicles

- **ETFs: Most variety, lowest fees**
- **Mutual funds: Limited choices**
- **Closed-end funds:**
 - **Limited choices**
 - **Often leveraged**
 - **Actively managed**



Income From Equities

- **Look for reasonably predictable cash flow streams**
- **Rising cash flow over time**
- **Valuations change. Buy discounts.**
- **Avoid highest yields**
- **Higher volatility than bonds, cash**
- **Can sell shares if need more cash**



Building an Equity Income Portfolio

- **Companies catering to basic needs**
- **Build for long haul**
- **Be sure company can afford dividend**
- **Need growth of income, principal**
- **Actively manage, but don't trade**



12 Dividend Stocks to Consider

- **AT&T (T)**
- **Coca-Cola (KO)**
- **Dominion Energy (D)**
- **IBM (IBM)**
- **Johnson & Johnson (JNJ)**
- **Kellogg (K)**
- **Procter & Gamble (PG)**
- **Public Storage (PSA)**
- **Crown Castle (CCI)**
- **U.S. Bancorp (USB)**
- **Verizon Communications (VZ)**
- **Prudential Financial (PRU)**



High Income from CEFs

- **Understand closed-end funds**
- **Advantages of closed-end structure**
- **Leverage: pluses and minuses**
- **Buy at discounts**
- **Accept volatility**
- **Return-of-capital distributions**



Buying CEFs

- **Total return first**
- **Don't pay a premium**
- **Know the leverage**
- **Favor active management**
- **Diversify**
- **Check trading volume**



8 CEFs to Consider

- **Gabelli Dividend & Income (GDV)**
- **C&S Quality Income Realty (RQI)**
- **C&S Ltd. Duration Preferred (LDI)**
- **C&S REIT & Preferred Income (RNP)**
- **Tekla Healthcare Opportunities (THQ)**
- **D&P Utility & Infrastructure (DPG)**
- **C&S CEF Opportunities (FOF)**
- **Advent Convert & Income (AVK)**



Business Development Companies (BDCs)

- **Structured like closed-end fund**
- **Many publicly traded**
- **Invest in small and medium companies**
- **Usually private companies**
- **Loans, equity and more**
- **Distribute 90% of profits**



BDC Rewards & Risks

- **High yields, capital gains**
- **Liquid**
- **Riskier investments**
- **Leveraged**
- **Selling at premiums**
- **Recessions cause problems**
- **Management is key**