



SUMMA GLOBAL ADVISORS, LLC

*Investing in a changing world*

Newsletter  
Rachel Wakefield

July 1, 2012

## The Elusive Income Stream Creative Ideas for Increasing Income in a Low-Rate Environment

For years the investment community has been postulating that interest rates cannot go lower. Yet they have! Interest paid on cash has now fallen below the rate of inflation. Money sitting in money market funds often yields as little as .01%. 10-year treasury bonds are yielding about 1.45%. Interest paid by these securities is clearly not keeping pace with inflation, thereby eroding purchasing power and making them a poor investment at this time. There is, however a sense of security when holding investments that feature principal protection. In current markets, we not only want to preserve capital, we should also strive to maintain purchasing power.

In order to have an effective income strategy, Summa has found that it is best to divide the income allocation according to two distinct goals: capital preservation and current income. Characteristics of the investments used to reach these goals are highlighted in the chart below.

| GOAL                      | SECURITIES UTILIZED                       | STRENGTHS  | WEAKNESSES   |
|---------------------------|---|--|--|
| CAPITAL PRESERVATION      | Cash                                      | No principal risk  | Purchasing power erosion   |
|                           | Money Markets                             | Low principal risk   |  |
|                           | Short Duration/ High Quality Fixed Income | Adjusts faster to any increase in rates because of short maturities. | Little or no interest earned   |
| CURRENT INCOME (EQUITIES) | Dividend-Paying Equities                  | Total return characteristics <sup>1</sup>                            | Market risk and volatility   |
|                           | REITs                                     | Real estate diversification  | Market and real estate risk  |
|                           | Master Limited Partnerships (MLPs)        | Strong cash flow back to unit holders                                | Market and energy-specific risk; tax issues                                  |
| CURRENT INCOME (BONDS)    | Emerging markets bonds                    | Higher current yield   | Currency and country-specific risk   |
|                           | Treasuries -- Inflation Protected (TIPs)  | Inflation-protected diversification; safety                          | Principal risk as rates rise, reinvestment risk because maturities are long. |
|                           | Corporate bonds                           | Higher current income, global diversification                        | Increased volatility   |
|                           | High-yield bonds                          | High current income  | Lower credit quality and higher volatility                                   |

As you can see, the quest for current income leads us to consider securities with varying risk profiles. For conservative portfolios, the income portion will lean heavily toward capital preservation; but for those clients who desire a high level of current income, diversifying into higher yield, income-generating securities, is a suitable course of action. An allocation that serves the dual mandate of capital preservation and current income will provide a robust income strategy for your portfolio.

- Rachel Wakefield, CFA

<sup>1</sup> Total return means dividends and potential price appreciation.