Making the Most of Your Money by Susan Carr-Templeton 10/7/10

Chasing High Yield Investments

Is it time to stop chasing investments that provide high(er) yields? But where else should you invest?
For many months now, investors have told me they want to find investments that can give them a yield that's greater than what they can get with treasuries or certificates of deposit (CDs). The business media has suggested high-yield bond funds, dividend-paying stocks, preferred stocks and master limited partnerships to name a few. Earning a higher yield seems to have become a national obsession.

If you invested in these strategies, you've been rewarded well so far and have earned an attractive yield and return on your money. If you're just starting your search now, you should exercise caution about putting all your funds in these strategies as many investors likely beat you to it. As more money goes into these investment vehicles, they become more bubble-like and you could be getting in at the top, which means they could lose value soon.

I am particularly concerned about the high-yield and master limited partnerships losing the most value if and when the bubble pops. I cannot predict if this will happen or when. However, I have learned over my 20 years in this industry that one needs to back away when the crowd is rushing in to an investment.

Remember that there's no free lunch--that yield does equal risk. So your "reward" for maximizing yield may not be so rewarding.

Some people try to balance obtaining yield with "safer" investing, choosing dividend-paying stocks.

The main reasons individuals invest in dividend-paying investments are:

1. Once you reach retirement, you'll generally want to live off of dividends, thereby hopefully keeping your principal intact for the rest of your life.

2. The federal government currently taxes dividends at a low 15-percent rate. Even if you aren't a retiree, you may want dividend-paying stocks for the double benefit of the dividend and (hopefully) price appreciation.

If you're like the majority of people invested in the market crash during 2008, you were hit with losses and hopefully you were able to harvest those losses so as to offset future investment gains. Because the market is up, now might be a good time to take advantage of those gains.

Susan Carr-Templeton is a personal wealth advisor with more than 20 years of investing experience. In addition to managing Stafford Wells Advisors, Susan volunteers on the investment committee for the Advocate Foundation.