Making the Most of Your Money

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Consider Goals When Seeking High-Yield Investments

So you want higher yields on your investments. I believe there is a better way to get what you want.

As an investment advisor, I continually hear the question: "Where can I invest to get higher yields than I can get from money market funds or certificates of deposit (CDs)?"

Investments that can give you higher yields than CDs include high-yield bonds and leveraged bond funds. The problem with these funds is they carry a high degree of risk: the risk of the underlying issuer of the bond defaulting, the risk of the bond's value declining as the underlying company sinks further into debt and the risk of the bond's value plunging when interest rates rise. And, since investors have poured themselves into these investments, I believe a bubble in high-yield investments may have been created. Most of us know and have experienced what happens when that bubble pops. In summary, one takes on a lot of risk relative to the return potential.

In my opinion, there is a better way. First, determine what is more important to you--a stream of dividend income or regular cash payments from your investment portfolio and potentially a higher-value portfolio at year's end? Your answer should be the latter.

Does it really matter where your income comes from in your portfolio if your investments are best positioned to an ideal balance of risk and return? I would rather have good investments in a client's portfolio that offer the best long-term returns for their level of risk than high-yield investments that are, in my opinion, loaded with more risk than return.

In this type of portfolio, you sell a portion of your investments as you need cash. The investments should be structured so that you sell investments with long-term gains so you are subject to the 25 percent capital gains tax. This compares favorably to the full tax impact of high-yield taxable bonds.

Under this scenario, you are achieving the need for a stream of income through periodic selling of qualifying investments and not sacrificing investment return just for risky dividend income.

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