

INVESTOR'S EDGE

Looking for safe income?

Here are a few suggestions

Consider bond funds, high dividend stocks

"Do you know the only thing that gives me pleasure? It's to see my dividends coming in" — John D. Rockefeller



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It's been 21 years this month since my father passed away after a brief battle with cancer. Two decades later, I still miss him. He taught me much and founded the investment firm that I now run.

My father was a capitalist who believed in American business. He was, in the best sense of the word, a fearless investor.

As he was failing, I remember one distinct interaction as if it were yesterday. He was laying in bed and I brought up the topic of buying bonds in some client portfolios who might be more conservative.

My father gently raised his hand, smiled, and with his index finger up said: "Stick with equities, son. I've never bought a damn bond in my life."

And he was damn right!

However, with the Dow Jones Industrial Average at record highs and rampant speculation throughout the financial news, (think GameStop, Bitcoin, Robbin hood, Reddit chat rooms, etc.) I certainly won't argue with investors who want to be more defensive. This is not, as the saying goes, your father's stock market. So there is a place for bonds in an investor's portfolio, especially if they are at or near retirement and need safe income.

With interest rates near zero and yields on CD's and money market funds paltry, I have gotten several emails from readers wondering how to get relatively "safe" income to live on. The truth is, most bonds offer pretty low yields, so a mixture of higher income-oriented investments is probably the best way to go.

Here are options I would recommend to generate income, using broad-based index and mutual funds. They are ranked from most conservative to more-risky.

Vanguard Total Bond ETF (BND): Vanguard Total Bond gives investors exposure to the entire U.S. bond market. Investors will own treasuries, corporate bonds, mortgage backed securities, high yield debt, etc. The fund currently yields 2.22% and has a very low expense ratio.

Between Feb. 1 and March 23 of last year, the Dow Jones Industrial Average dropped over 35%. During that time, BND was basically flat as investors sought the safety and lower volatility of bonds. BND is a simple, highly diversified, low-cost way to access the bond market and should be a core holding of anyone's bond portfolio.

Dodge & Cox Income Fund (DODIX): Based in San Francisco, Dodge & Cox has been a steady, successful fund family over the last 40 years, managing a total of seven no-load mutual funds. The Dodge & Cox Income Fund is centered around defensive, high-quality investment grade bonds, in addition to a smaller amount in high-yield debt.

DODIX charges a 0.42% expense ratio and currently yields 2.38%. For the full year of 2020, the Dodge & Cox Income Fund returned an impressive 9.45% and has outperformed the total bond market index on a one, three, and five-year time frame. I am very comfortable owning this fund.

Vanguard High Yield Bond Fund (VWEHX): Finally, the Vanguard High Yield Fund gives investors exposure to the high-yield debt portion of the bond market. However, this fund specifically targets higher-quality issuers in this space, which lowers overall risk and volatility.

Because the fund owns primarily high-yield debt, it is more volatile than BND or DODIX. However, with a yield of 4.34%, I think Vanguard High Yield is a very solid addition to any bond portfolio, particularly in this low interest rate environment. This would be my top bond pick of the three.

iShares U.S. Preferred Stock (PFF):

Another option for income is in preferred stocks. They are sort of a hybrid between stocks and bonds, offering a higher yield than stocks with lower amounts of volatility.

A good way to invest in these is through the iShares U.S. Preferred ETF which yields nearly 5% at the time of this writing, with half the volatility of the stock market. I think PFF is a solid way to beef up your income, especially in this low-interest rate environment.

Higher-dividend paying stocks:

Well, I just couldn't help myself — dividend-oriented stocks need to be somewhere in the income mix! Stocks such as Verizon, Coca-Cola, Bristol Myers Squibb, and many others all offer yields of over 3%, (higher than BND) as does the Vanguard High Dividend Yield Fund (VYM).

Bonds and other income producing investments can play an important part of the conservative investor's financial plan depending on your stage in life. Remember, during these speculative times of GameStop and Bitcoin, you don't have to be a fearless investor to reach your financial goals!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com