

## *When You're Serious...*

by Bradley R. Newman, CFP®

### Beware As You Hunt For Yield

The low interest rate environment that began several years ago combined with a need for income, either presently or in the not too distant future, has left most baby-boomers feeling a bit anxious about their financial futures.

While most investors have a general understanding of the dangers that can be found while seeking high levels of capital appreciation or growth; the lesser-known, but very impactful, dangers that can be encountered while seeking yield in today's low yield environment have just as much potential to derail retirement for unsuspecting investors. The ongoing need to find yield in the current low yield environment makes it more critical for both pre-retirees and retirees to manage their portfolios appropriately.

#### Cash Isn't An Option

Everyone knows that there is no yield to be earned by holding cash, and certificates of deposit don't provide much opportunity either. However, despite the lack of income, many people are considering this as their 'safe' option; the rationalization to hold these investments translates to "I know that I'm not earning anything, but at least my money is protected and I'm not losing anything".

Think again. Although you won't see a decline in your absolute dollar values, the stealth risk that lies in cash is the loss of purchasing power that effectively causes dollars currently allocated to cash to lose roughly 2% per year, even in what has been a very tame inflationary period. Unfortunately, you can't effectively retire, or make meaningful progress towards retirement, on that type of return.

#### The Well-Known Risk of Stocks

Despite being primarily thought of as an investment for appreciation or growth, the stock market can be a bountiful source of yield – if you look in the right places. Sectors such as Utilities, Telecom or Healthcare typically provide opportunities for yields in excess of 4% and preferred stocks can offer yields of 6% or more; however, these attractive yields are far from risk free.

You don't have to look back more than five years to find a year, a quarter or even a single month when the S&P 500 posted a double-digit loss. Despite the opportunity to find very attractive and consistent yields, the volatility of the stock market poses a notable risk to a portfolio that is not prudently managed.

#### The Lesser-Known Risk of Bonds

There is a lesser known, but all too real, level of risk to chasing yield in the fixed income market. Although bonds are typically thought of as 'safe' investments, rising interest rate environments, like the one that we will inevitably be entering – after all, interest rates have nowhere to go but up – can punish bond holdings significantly.

Our last serious encounter with a rising interest rate environment occurred in 1994 and many bond portfolios suffered staggering losses as interest rates rose; for example, the Barclays Capital U.S. Aggregate Bond Index lost roughly 6% between early-February and mid-May of that year.

### So This Really Is Manageable

Yes, but not with the laissez-faire, set-it-and-forget-it methodology that you may have used in the past. You will need to search for yield in areas you have not searched historically and you will have to be exceedingly attuned to changes in the marketplace that will serve as your cue to make changes in your portfolio.

If structured correctly, a portfolio utilizing a balanced Investment Policy can generate a reasonable aggregate yield without taking on excessive risk; however, as the world changes, the level of risk can escalate quickly.

While both manageable and necessary for most pre-retirees and retirees, obtaining the income that will be required to fund retirement will continue to be a tricky endeavor for the foreseeable future.

*Bradley R. Newman, CFP® is with Roof Advisory Group, Inc., an independent investment management and financial advisory firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that provides portfolio management and financial planning services for individual and institutional clientele. The firm's email address is [invest@roofadvisory.com](mailto:invest@roofadvisory.com).*