



## ***Yield Hunt***

With the help of central banks around the world, interest rates have plummeted in 2020, and many income-oriented investors are once again searching for decent yields. In fact, just this week the benchmark 10-year Treasury yield closed at a record low of 0.52%, with several developed nations overseas in negative territory. Swift action from central bankers, coupled with investors recent shift in demand toward high-quality bonds and cash instruments, have had a compounding effect in lowering yields across the board.

Because of this dynamic, it is important for investors to get comfortable with lower income levels produced by portfolios. In most cases, achieving the same level of income as prior years is simply not realistic. Instead, investors would be better served in thinking about the total return of their portfolio moving forward. To accomplish portfolio income needs, a few strategies come to mind.

The first approach goes hand-in-hand with the original notion of managing a portfolio for total return, not just total income. What we mean by this is that we never want our clients to over-reach for yield, especially if it feels as though they need to load up on higher-yielding investments to maintain current income requirements. When implementing these types of changes to the portfolio, an investor may inadvertently increase exposure to riskier assets in the portfolio, thereby compromising the ability for the portfolio to withstand a downturn. Examples of these types of investments could include structured notes, business development corporations, and private REITs. While these investments do carry attractive yields, their volatility and illiquid nature tend to be heavy warning signs when considering them for purchase.

What about loading up on more high-quality fixed income investments? The problem with this strategy is that most investors are unlikely to achieve a sustainable rate of return on these types of investments given where yields are today. (Typically, starting yields are a fair predictor of what you might expect from bonds over the course of several years.) Of course, high-quality bonds have a very important place in most portfolios, but investors may risk getting too conservative given where rates are today. Conversely, loading up on the equity side of the ledger with high dividend paying stocks means you would have missed out on gains from growth-oriented companies that don't pay out dividends such as Facebook, Alphabet, and Amazon. We believe managing a portfolio by focusing on total return tends to lead to the highest probability of meeting your goals. We seek out opportunities to blend investments together that take into account your withdrawal needs, as well as the effect of inflation, taxes, and fees. We strive to appropriately size and complement opportunistic yield investments with high quality bonds, and stocks diversified globally. In fact, overseas stocks tend to carry yield 0.50% to 1% higher on average than those from home, which is among the many reasons we believe they can play an important role in portfolios. And while bond yields in 2020 are not compelling on an absolute basis, there are areas of opportunity, including tax-free municipal bonds, qualified dividend income preferred stocks, or convertible bonds.

Ultimately, our goal is to create a total portfolio that clients can rely on for cash flow withdrawals, and yet still participate in the market's growth. When the natural income generation of investments comes up short, we build an investment plan that is flexible enough to meet our client's needs with systematic rebalancing in a tax-sensitive way. For this reason, communication with our clients is key to the process, so that cash flow factors can be considered and implemented for appropriate ongoing management.

These days, cash is king, in more ways than one, and we are here to help you preserve, protect, and grow your wealth and have the cash you need to take care of yourself and those you love.

---

*The information set forth in this communication is presented by Ropes Wealth Advisors LLC ("Ropes Wealth") a wholly owned subsidiary of Ropes & Gray LLP. The contents are for informational and educational purposes only and are not intended as investment, legal or tax advice. Please consult with your investment, legal or tax advisor concerning any specific questions you may have. Ropes Wealth cautions the reader that past results are not indicative of future performance. The historical return of markets generally and of individual assets classes or individual securities may not be an accurate predictor of future returns of those makers, asset classes or individual securities. Ropes Wealth does not guarantee the accuracy and completeness of any sourced data in this communication.*

Ropes Wealth Advisors LLC  
800 Boylston Street Boston, MA 02199-3600