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Money Matter\$



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Sustainable Income Portfolios—The Annuity Alternative

by Adam Sommers

I read a Forbes Magazine article back in September titled “Income During the Crash”, written by William Baldwin. It made me ponder the choices clients have for generating income from their savings—while considering the emotional roller coaster that comes with monitoring your investments regularly.

The “safest sounding” decision would be to convert your retirement savings into lifetime income by purchasing an immediate annuity that guarantees you monthly payments for as long as you live. While that may feel “safe”, we need to consider the hidden “risks” of such a product. First, immediate annuities don’t often include an annual cost-of-living increase. Second, you undertake risk that the insurance company can’t fulfill their promise (AIG on the verge of collapse in 2008?). Most importantly—you lose your flexibility, and your principal; there will be no money for your heirs. **That is one HUGE, irreversible decision:** to hand over your nest egg to an insurance company for the promise of lifetime income.

That doesn’t even take into account the “return” you’ll get on your money. These days, income from immediate annuities often nets you about 6% of the premium paid (i.e. money “invested”) per year. That’s not a “return” of 6%; that’s your money you’ll be getting back for the first 17 years. In effect, the insurance company is betting you won’t outlive the interest *they’ll* earn on your savings in those first 17 years. We think the best annuity you can buy is Social Security (untapped benefits after age-62 grow at nearly 8%!). If you’re considering an annuity for re-

tirement income, the first step would be to defer your Social Security benefits until age 70.

In the Forbes article, Mr. Baldwin suggests you “Pay less attention to the prices of assets and more to the income they generate”. Just because IBM stock is down 20% doesn’t mean they’re earning less profit for their shareholders—or more importantly that your dividend income will be affected.

During this low interest rate environment, **Sommers Financial Management developed “annuity alternatives” that we call Sustainable Income Portfolios (SIPs).** They are designed with the aim of regularly taking the inflation-adjusted income from your investment portfolio, without eating away at the principal over time.

While the principal value of your portfolio will fluctuate with the market, it should not affect the income produced by the holdings. We know from history that markets tend to rise over time (even with some down years), so we are betting that the portfolio will maintain principal throughout your golden years. We’ve built SIPs fit for conservative investors, moderate investors, and aggressive investors—and they all generate annual income payouts between 4.3% and 4.7%, not accounting for a rise—or occasional decline—in principal.

We encourage you to “SIP income from your investments”. **Our Sustainable Income Portfolios [SIPs] are designed so that you can have your cake—and nibble from it, too!**

ETF EXTRA — iShares Morningstar Multi-Asset Income ETF — (IYLD)

The iShares Morningstar Multi-Asset Income ETF tracks an index of fixed-income, equity, preferred stock and REIT ETFs with a focus on income production. **SFM holds IYLD in our Conservative SIP.**

From ETF.com: “IYLD offers a fixed-income focused multi-asset yield play at an attractive price. The fund, which is structured as an ETF of ETFs, follows an allocation mandate of 60% in fixed income, 20% in equities and 20% in REITs and preferred stock. Launched in April 2012, IYLD has gathered healthy assets and trades at tight spreads.”

IYLD’s Notable Statistics

Dividend Yield:	5.33 %
Total Assets in the Fund:	\$ 231 Mil.
Expense Ratio:	0.24 %
12-Month Return:	- 5.2 %
Max Drawn Down (last 3 yrs):	- 15.2 %

“Pay less attention to the prices of assets and more to the income they generate.”

5-Year Returns

Dow Jones Industrial 30

Average: 8.5 %

S&P 500 U.S. Large Company Stock Index:

10.3 %

S&P Moderate Allocation

Index (AOM): 4.9 %

SPDR Gold Index (GLD):

- 5.9 %

iShares Aggregate Bond

Index (AGG): 3.1 %

SFM’s “NAKED ALPHA FUND”:

9.3 %



Model STOCK Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
22%	VYM	Vanguard High Dividend Stock ETF	3.14%	0.1%	14.9%	0.10%
17%	VB	Vanguard Small-Cap ETF	1.87%	-3.6%	13.6%	0.09%
17%	VT	Vanguard Total World Stock ETF	2.46%	-1.8%	8.5%	0.17%
21%	VIG	Vanguard Dividend Appreciation ETF	2.30%	-1.8%	12.6%	0.10%
23%	IVV	iShares S&P 500 ETF	2.11%	1.3%	16.1%	0.07%

INCOME-oriented portfolio

Average dividend yield: 3.7%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
29%	SCHD	Schwab U.S. Dividend Stock ETF	2.96%	-0.1%	14.9%	0.07%
32%	VYM	Vanguard High Dividend Stock ETF	3.14%	0.1%	14.9%	0.10%
19%	HSPX	Horizons S&P 500 Covered Call ETF	5.53%	-0.3%	NA	0.65%
20%	DBEF	dbShares International Currency Hedged ETF	3.33%	4.5%	11.4%	0.35%



Model BOND Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
21%	FATRX	Frost Total Return Fund	3.36%	-0.8%	2.5%	0.75%
19%	BND	Vanguard Total Bond Market ETF	2.47%	0.4%	1.3%	0.07%
20%	BSV	Vanguard Short-Term Bond ETF	1.30%	0.9%	0.8%	0.10%
21%	NFRAX	Nuveen Senior Secured Floating Rate Note Fund	4.89%	-2.1%	2.3%	0.98%
19%	LQD	iShares Corporate Bond ETF	3.47%	-1.4%	1.3%	0.15%

INCOME-oriented portfolio

Average dividend yield: 4.9%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
50%	NFRAX	Nuveen Senior Secured Floating Rate Note Fund	4.89%	-2.1%	2.3%	0.98%
50%	OOSYX	Oppenheimer Senior Floating Rate Note Fund	4.96%	-2.0%	1.8%	0.72%



Model ALTERNATIVE Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
19%	HHAQX	Hancock Horizon Quant Long/Short Fund	0.00%	0.0%	11.5%	1.35%
19%	VNQ	Vanguard U.S. Real Estate ETF	3.93%	1.6%	11.7%	0.12%
22%	VMNFX	Vanguard Market Neutral Fund	0.00%	5.7%	6.4%	0.25%
18%	NRIAX	Nuveen Real Asset Income Fund	5.71%	-3.2%	6.0%	1.17%
22%	NPSAX	Nuveen Preferred Securities Fund	5.59%	4.3%	5.9%	1.07%

INCOME-oriented portfolio

Average dividend yield: 5.3%

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
26%	PFF	iShares Preferred Stock ETF	6.02%	4.5%	5.7%	0.47%
23%	NRIAX	Nuveen Real Asset Income Fund	5.71%	-3.2%	6.0%	1.17%
29%	NPSAX	Nuveen Preferred Securities Fund	5.59%	4.3%	5.9%	1.07%
23%	VNQ	Vanguard U.S. Real Estate ETF	3.93%	1.6%	11.7%	0.12%