NAVELLIER
Calculated Investing

FIVE GREAT INCOME STRATEGIES TO FOCUS ON

Authored by Bryan Perry,
Contributor to Navellier's Marketmail Newsletter

JUNE 2017

Navellier & Associates, Inc.
One East Liberty, Suite 504
Reno, Nevada 89501

800-887-8671
info@navellier.com

www.navellier.com

NCD-17-693

FIVE GREAT INCOME STRATEGIES TO FOCUS ON

By Bryan Perry

The content in this report represents the opinion of Bryan Perry.

The U.S. GDP is rising, although slowly. Very recently, the Bureau of Economic Analysis revised its first-quarter GDP estimate up to a 1.2% annual pace, from 0.7% initially estimated. Meanwhile, second-quarter GDP estimates have been reduced from a robust 3.3% to a revised 3.0% due to a rising trade deficit. When added together, first-half growth looks to be about +2.1% with the Fed poised to raise short-term interest rates again at the June FOMC meeting.

Even if the Fed raises short-term rates, Wall Street remains tentative on selling bond equivalents, since long-term Treasury bond yields remain near annual lows. From the most recent FOMC minutes, bond traders interpreted that the Fed does not want to sell assets from its $4.5 trillion balance sheet, preferring to let their balance sheet shrink from "attrition," by letting the securities mature. This "dovish" statement caused Treasury bond yields to remain near their 2017 lows, which is very bullish for future stock prices.

The spread between 10-yr and 30-yr Treasuries is about 70 basis points and narrowing. A flatter yield curve can be interpreted as short-term optimism coupled with longer-term caution. Against this investing landscape, Navellier & Associates seeks to maximize income generation with five distinct strategies designed to best serve assets targeting income.

There are always varying degrees of risk when considering alternatives to short-term investment grade instruments (money markets, CDs, T-bills) that when adjusted for inflation and taxes comprise zero to negative returns. So, for investors seeking well thought-out avenues of sustainable income, there are five great income options that can be implemented with a high degree of confidence in today's market for yield-driven investing.

1) BBB PASSIVE BOND LADDERS (current estimated annual yield of 3.16%) are structured every month for Navellier clients and we have raised well over $2 billion via Unit Investments Trusts (UITs). BBB bonds are "Investment Grade" bonds that have minimal default risk but significantly higher yields than other B- and A-rated bonds. The shorter-term average maturities structured within these UITs are the 'sweet spot' on the present yield curve, representing maximum income with highly visible maturity dates that afford bond investors a premium investment option where risk is clearly defined.

There are two very special characteristics associated with Navellier's passive bond ladders. First, we select the "optional maturity" on the "tangent" of the corporate yield curve (i.e., typically 4 to 7 years) where investors can achieve the highest yield with the least amount of duration risk. Second, every month we bid on approximately 120 corporate bonds and only buy up to 18 for each bond ladder. Essentially, we are striving to cross BBB corporate bonds from other institutional managers with minimal bid/ask spreads, so investors in our UITs can get the highest possible yield.

Investors in our bond UITs receive interest every month (bonds pay semi-annually, but investors gets the same amount of monthly interest until the bonds in each UIT mature or are called). Essentially, our bond UITs are a great way to receive monthly interest in high quality corporate bonds. There is a maximum federal tax of 43.4% on corporate bond interest, but the new proposed federal taxes would lower that maximum rate to 35%.

Source: AAMLive/UIT AAM

2) POWER DIVIDEND PORTFOLIO (current estimated annual yield of 3.52%) is Navellier's flagship dividend portfolio because it is our safest dividend portfolio with the lowest volatility (based on Standard Deviation). Our Power Dividend stocks are characterized by persistent dividend growth and typically double their annual dividend distributions every 6 to 7 years. Consistent performance is the hallmark of a great strategy and Power Dividend has outperformed its benchmark (S&P 500) for the past 1, 3, 5, 7, and 10 year periods. There is a maximum federal tax of 23.8% on dividend income, but the new proposed federal taxes would lower that maximum rate to 20%. For investors that desire a rising stream of tax-favored income compounded with capital gains supported by a 10-year, five-star track record as per Morningstar's most recent rankings, Power Dividend stands out as a clear cut strategy in which we take tremendous pride.

3) CONCENTRATED HIGH DIVIDEND (current estimated annual yield of 3.89%) is our solution to our Power Dividend clients that are demanding more yield rather than capital appreciation. At Navellier, we can push the annual dividend yield closer to 4% and still achieve a great after tax yield based on a maximum federal tax of 23.8% on dividend income, but the new proposed federal taxes would lower that maximum rate to 20%. The underlying portfolio takes on more characteristics of all-weather ballast businesses (utilities, telecoms, insurance, consumer staples) that are more defensive and less economically sensitive, striving for superior dividend yield and stability of principal. For clients that need high dividend yields, our Concentrated High Dividend portfolio is a good option, especially for clients that are tax sensitive, seeking low portfolio turnover, low volatility, and higher after-tax dividend income.

4) COVERED CALL (current estimated annual yield of 2.68% via dividends and 2% anticipated annual income from writing covered call options) is an ideal portfolio for “choppy” market environments. When we write (sell) a covered call option, we collect an “option premium” in exchange for potentially selling a stock at a higher price. Writing call options effectively puts a ceiling on a stock’s potential capital appreciation until that option expires. In a strong market environment, call options are frequently “exercised” at the option strike price thereby limiting upside appreciation. However, in a choppy market environment, our Covered Call Portfolio’s goal is to collect option premiums, but the odds of many of our stocks being exercised at the option strike price fall significantly. In summary, our Covered Call Portfolio’s goal is to supplement dividend income by writing call options and collecting option premiums. There is a maximum federal tax of 23.8% on dividend income and 43.4% on covered call premium income, but the new proposed federal taxes would lower the maximum rates to 20% and 35%, respectively.

5) HIGH DIVIDEND INCOME (current estimated annual yield of 9.43%) available only to select accredited investors. This portfolio evolved from specialty trusts that only allow dividend income to be distributed. Louis Navellier created the High Dividend Income Portfolio to allow these trust investors to get the maximum possible yield and is our best solution for clients that need the highest possible dividend income via Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs). There is a maximum federal tax of 43.4% on dividend income from REITs, but the new proposed federal taxes would lower that maximum rate to 35%. Distributions from MLPs are tax favored and MLP investors receive a K-1 each year and might have to file tax returns in multiple states. Because REITs and MLPs are not as liquid as many securities and can be subject to pricing inefficiencies, Navellier’s High Dividend Income Portfolio buys up to 50 securities to reduce unsystematic risk (i.e., the random movement of each security). Interestingly, Navellier’s High Dividend Income Portfolio’s extraordinarily high dividend yield is largely due to the use of leverage implemented by certain Business Development Companies (BDCs) and Mortgage REITs. However, as dividend yields get higher, capital appreciation potential from primarily ‘pass through securities’ becomes much more limited, and as such, our High Dividend Income Portfolio is really designed for investors that need the highest possible dividend income, regardless of the underlying tax consequences.

As a general rule of thumb, it is always prudent to confer with tax counsel before incorporating an income strategy that could materially impact one’s taxable income situation. At Navellier, we strive to deliver the right income options to potentially outperform in the current investing landscape. These five strategies are benefiting from favorable market conditions fostered by a bullish glide path of 'lower for longer' interest rates as telegraphed by the strong bid for Treasuries on the long end of the yield curve. With that said, there are a number of variables that could just as easily change the dynamics for income investing on short notice, which is why for many investors, a decision to partner with a professional advisor like Navellier & Associates with over 38 years of market experience is a good and wise plan to put in place for the balance of 2017 and beyond.

IMPORTANT DISCLOSURE

The preceding commentary is the opinion of Bryan Perry.

This communication has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any Navellier investment strategy or composites. The net performance results portrayed include the reinvestment of all dividends and other earnings. **Past performance is not indicative of future results, and there can be no guarantee as to the accuracy of market forecasts.** *Opinions, estimates, and forecasts may be changed without notice. This material is not an offer, or a solicitation of an offer, to purchase any securities, including shares of any investment company. The views and opinions expressed are provided for general information only. The views and opinions expressed are those of Navellier at the time of publication and are subject to change. There is no guarantee that these views will come to pass. The statistical information presented in this communication is provided by Navellier Internal Research.*

Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Investment in fixed income components has the potential for the investment return and principal value of an investment to fluctuate so that an investor's shares, when redeemed, may be worth less than their original cost. Dividend payments are not guaranteed. The amount of a dividend payment, if any, can vary over time and issuers may reduce dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer.

The views and opinions expressed do not constitute specific tax, legal, or investment or financial advice to, or recommendations for, any person, and the material is not intended to provide financial or investment advice and does not take into account the particular financial circumstances of individual investors. Before investing in any investment product, investors should consult their financial or tax advisor, accountant, or attorney with regard to their specific situation.