How to Boost the Yield on Your Portfolio

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Punishing yields of 0.05% on three-month T-bills and .85% on short-term Treasury notes are devastating to the millions of investors who rely on income from their portfolios to fund living expenses. The temptation for many of these investors is to reach for yield. Some investors are loading up on long bonds. You can pick up an additional 3% in yield by moving into long bonds, but you also add an extraordinary amount of risk. If rates move up, investors in long bonds will get creamed. I'm talking about losses that dwarf what many investors experienced in the recent bear market in stocks. If long rates increase by just 1%, 30-year Treasury zero-coupon bonds would fall by 25%. If rates rise 2%, forget it-your portfolio is toast.

There is a better way to add yield to a fixed-income portfolio. Individual issue selection is the key. The idea here is to move down in rating and up in yield without sacrificing quality. You want to own a portfolio of both highly rated issues and those rated below investment-grade where there is tangible value to protect your principal in the event of default. In Young Research's Global Investment Strategy, we recently recommended a five-year corporate bond with a yield of close to 7%, or 4% more than comparable treasuries. The bond is backed by a portfolio of some of the most valuable energy resources in North America. If you are retired or soon to be retired and are looking for ways to boost the income on your fixed-income portfolio, please join us.