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Don't Fight the Euro Central Bank: Stay Calm and Carry On with These Three Compelling Dividend Paying Investments!

By David G. Dietze, JD, CFA, CFP™

"While the markets are still very fearful of Greece and its potential impact on the Euro, we believe that the Euro Central Bank will throw the kitchen sink at the situation as monetary policy makers have come too far and are too committed to right the Euro economy to let a Greek failure spoil the party."

David Dietze, JD, CFA, CFP
CNBC, June 1, 2015

SPECIAL IN THIS ISSUE

It's no coincidence that our stock market has more than tripled in the last six years, since our Federal Reserve depressed interest rates to near zero in late 2008. Although a higher stock market is certainly not the primary goal of central bankers, nearly all economists and bankers recognize that a bull market has salutary effects.

In the US, the low interest rates have worked so well that the stock market is trading at abnormally high valuations, despite a somewhat sluggish economy, a slowdown in corporate earnings, and weakness overseas. The pessimists fear the party is over, now that Janet Yellen and the Federal Reserve have ended the aggressive bond buying to reduce interest rates and promised to raise the benchmark Federal Funds rate.

> *"Europe's cheap money policy is likely to keep interest rates lower longer Stateside"*

The Upshot

The focus on the Federal Reserve's plans to raise interest rates may be overlooking the renewed vigor of Europe's quantitative easing. This overseas money printing is not just confined to Europe as most non-US central banks have indicated they are nowhere near ready to raise rates.

In our global world, Europe's cheap money policy is likely to keep interest rates lower longer Stateside; any US rate higher than Europe's will keep money flowing to our shores. Further, Europe's desire to keep rates depressed is likely to give the Fed pause before raising rates here.

As a result investors should stay the course in stocks, but tilt their portfolios to franchise stocks, boasting of sizeable cash flows, above average dividends, and to out of favor sectors.

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Don't Fight the Euro Central Bank: Stay Calm and Carry On with These Three Compelling Dividend Paying Investments!

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Don't Doubt the ECB's Resolve!

The European Central Bank (ECB) is the continental counterpart to our Federal Reserve. It lagged relative to the Fed in response to the sub-prime mortgage crisis, reasoning that the problem was lax real estate lending standards Stateside, not in Europe. In addition, the memory of runaway inflation last century in Europe has traditionally given pause to the use of monetary tools to spur the economy.

However, as European economic conditions deteriorated, pressure mounted for US style quantitative easing to generate growth and reflate the economy. The initial step was "jaw boning:" In July of 2012, Mario Draghi, the ECB's head, promised to do "whatever it takes" to preserve the Euro, saying "believe me, it will be enough."

By the start of this year, full blown quantitative easing plans were instituted, with the ECB promising to buy $60 billion worth of bonds monthly. Markets responded, with the Euro sinking in March to a 12 year low and German interest rates plunging below zero. Euro bourses enjoyed their best Q1 in 17 years.

"Mario Draghi, the ECB's head, promised to do 'whatever it takes' to preserve the Euro"

More recently, investors challenged the ECB, questioning whether it would stay the course with its monetary easing. Bond yields backed up, with the yield on the German sovereign 10 year retracing its descent, climbing from near 0 to over 70 basis points. The Euro also reversed its decline, rising from close to 104 to nearly 115.

Euro officials came back swinging. Benoit Coeuré advised that the ECB would front load the summer's planned bond purchases, allegedly to get ahead of an anticipated lack of liquidity during the summer vacation months.

Bottom line: The ECB is very far off from ending QE; the lower longer interest rate backdrop is benign for stocks.

Investors now have to wonder whether our Federal Reserve will indeed move in the opposite direction of their counterparts overseas. To do so would make the ECB's job more difficult, cause our Dollar to soar, and cool our economy, despite a complete absence of inflation. Bearishness based on anticipation of higher rates sooner may be misplaced.

How to Play It

In any event, with a sufficiently long horizon, invest in companies that dominate their markets, have a long record of profitability, and are only lightly leveraged. Screen for dividend yields that are not only greater than the ten year Treasury, but run rings around the much lower Euro rates, and are likely to grow over the next decade.

It is also important to look at sectors that have lagged, that still offer value, and provide reason for better times ahead.

Diageo (DEO): Disdain For Non S&P 500 Euro Stocks Provides Opportunity for the Owner of Some of the World's Best Brands

European stocks have been out of favor for a long time and are just now starting to show signs of life. Screen for European-headquartered companies that do business globally. You want a Euro valuation with exposure to stronger non Euro economies.

London based Diageo is by far the largest alcoholic beverage purveyor in the world, some 65% bigger than its nearest competitor, Pernod Ricard. With a 27% global market share and seven of the world's top beverage brands (including Johnny Walker, Smirnoff, and Guinness), it boasts product loyalty, economies of scale, and high margins.

Dollar strength, coupled with weak non domestic economies, has reduced investor expectations for the company. However, that now seems priced into the stock, as it trades nearly 10% off of last summer's price. Meanwhile, you receive a near three percent dividend yield, close to four times the yield on the German 10 year bond. If the ECB pushes interest rates down further, that can only enhance Diageo's attractiveness.

"Will our Federal Reserve move in the opposite direction of their counterparts overseas?"

MetLife (MET): The World's Largest Life Insurer Is a Diamond In the (Financial) Rough!

On a risk to reward basis, MetLife is quite attractive. It is the country's largest life insurance provider, so boasts substantial economies of scale. It is the go to choice for the Fortune 100, with a 90% market share.

MetLife has been held back by concerns over plans to regulate the company as a systemically important financial institution. Should this occur, it may well be able to shed its problematic operations, similar to what General Electric is doing, to reduce this regulatory burden.

MetLife's stock is attractively priced, trading below book value, while its dividend yield, 2.7%, exceeds sovereign bond yields on both sides of the Atlantic.

Chevron (CVX): When the Going Gets Tough in the Energy Patch, Look For the Strong to Thrive

Chevron, down some 30% since last July, seems to be an outstanding investment no matter where energy prices go.

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Your Key Social Security Moves

By Claire E. Toth, JD, MLT, CFP™

You've seen the statistics—10,000 Baby Boomers a day are signing up for Social Security. Most of them have got it wrong—they're claiming too young, they're not taking advantage of all their options, and they're not adequately protecting their families. You can do better; these moves are a good place to start.

Key Move Number One: Set Up Your Account Online. If you haven't done so already, go to ssa.gov and establish your online account. You'll have to answer some personal financial questions, similar to those you'd answer to view your credit report. You have the option to create an additional security key, linked to your cell phone; that's a good idea.

"If your earnings are understated or missing, your lifetime benefits will be adversely affected."

Even if you don't plan to claim benefits anytime soon, there are many reasons to set up online access. With all the government cutbacks, the Social Security Administration no longer has the funds to send everyone a paper benefits statement each year. You can access yours online. First and foremost, be certain your earnings history is accurate and complete. Your Social Security benefit is keyed off your 35 highest earning years, age 21 and thereafter. If your earnings are understated or missing, your lifetime benefits will be adversely affected. Generally, you have until the April 15th three years after a calendar year end to correct your earnings, so check your record periodically.

The statement also gives you an idea of what your benefit might be at different ages. Beyond the statement, the Social Security website has useful online calculators, so you can play with different scenarios to see how they would affect your benefits.

Once on the web site, you can pretty much manage your account—apply for benefits, arrange for (and change) direct deposit, get most questions answered, and so on. This is far, far preferable to spending 45 minutes on hold with the toll free number or waiting half the day in a local office (even with an appointment you scheduled after sitting on hold for 45 minutes).

"The Social Security Administration does not recognize powers of attorney."

Should the time come when you need help managing your Social Security account, online access is even more important. The Social Security Administration does not recognize powers of attorney. In order for a friend or family member to manage your benefits for you, that person would have to be appointed a Representative Payee, a time-consuming and cumbersome process. A representative payee cannot have online access to your account, so that any changes (for example, changing the bank account into which your benefit is deposited) involves paper and time. Further, the representative payee must make annual reports to the Social Security Administration as to how your benefit is being managed. Save your family members this time and headache by documenting your online access.

"Who wouldn't want an eight percent return for life, particularly if that return is guaranteed by the U.S. government?"

Key Move Number Two: Claim Benefits as Late as You Can. In a world where cash pays zero and the ten year Treasury note pays less than 2.5 percent, who wouldn't want an eight percent return for life, particularly if that return is guaranteed by the U.S. government? Most investors today are scrambling to receive just a fraction of that amount. However, eight percent is

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Claire E. Toth, JD, MLT, CFP™

Claire E. Toth, as Vice President of Point View Wealth Management, Inc., provides our clients with tax, financial, and estate planning expertise, enabling the firm to offer fully integrated asset management and financial planning services.

Previously, Ms. Toth was Of Counsel to the law firm of Herold and Haines, P.A., in Warren, New Jersey, where her practice focused on tax and business planning for closely held businesses and their owners. Before joining Herold and Haines, Ms. Toth was with the IRS Chief Counsel in Washington.

Ms. Toth received her A.B. and J.D. degrees from the University of Chicago, where she was elected to Phi Beta Kappa. She has an M.L.T. from Georgetown University and was awarded the CFP™ designation.

Sell Discipline: The Art of 20/20 Hindsight

By John J. Petrides, MBA

If we all had a crystal ball and were able to see what the future holds, buying and selling stocks would be easy. However, until time travel becomes a reality, the future will always remain uncertain. We often get the question from clients "when is the right time to sell a stock?" In theory, investors are supposed to buy low and sell high. In practice, this is often difficult to do. How do you know when the stock has reached "the high"? In theory there are no ceilings to how high a stock price can go. When you are making the initial purchase presumably you think you are "buying low," (if not why else would you buy it?), but stocks can go lower, and in theory to zero. Many investors hold onto their losers too long, not being able to admit their initial investment thesis was wrong. Others sell their winners too early, capturing gains before the earnings growth of the investment really kicks in, leaving further returns on the table. However, there are many components to this seemingly easy question of when to sell, and the most popular answer is…it depends.

"In theory, investors are supposed to buy low and sell high. In practice, this is often difficult to do."

Selling depends on what the investment time horizon is for that particular investor? Does the investor need cash flow today? What happens to the income stream of the portfolio if that investment is sold? What type of account is the position being sold out of, taxable or tax exempt? If taxable, and a gain, has the investment been held for longer than one year? By selling this security has the balance of the portfolio between equities and fixed income been skewed to one side? Has gifting the stock been considered, as opposed to a sale? These are the initial portfolio questions that need to be answered before selling out of a position.

John J. Petrides, MBA

On an individual stock basis, there are four main questions that must be considered: First, has the stock become expensive? Second, is there another investment with a better risk/reward scenario? Next, has the original reason for investing in the company been called into question? Finally, has the stock appreciated and become too large, now posing concentration risk to the portfolio?

1. Has the stock become expensive? Is the market currently offering too high of a price to participate in the future profitability of the company that may not actually occur? Have market expectations exceeded the actual earnings fundamentals of the company (think tech stocks in 1999, or solar stocks in 2007)? When we buy a stock we are looking for solid earnings growth at a cheap price. In other words, we are looking to buy a Ferrari, but want to pay the price of a Ford. When the market realizes that the Ford is actually a Ferrari, is the time to sell.

2. Is there a better idea? A company has executed on its earnings growth targets and the stock price has responded in kind. Because the stock has been a strong performer, and the market is now "convinced" of its future prospects, the stock may not be good value going forward. We then ask, is there a better investment opportunity that is more attractive than the present holding over the next 3-5 years? In this case, we would sell the stock with the goal of trying to find better relative value in another company.

3. Has the original investment thesis changed? We look to invest in companies with a strong business model that has a solid management team, and trades cheaply. However, over time things change, and so too can the investment thesis. A company could make a terrible strategic acquisition. Or, maybe a key member of the management team resigned. If a stock sells off because the market is nervous about a short term issue, that is one thing, if a stock sells off because the company's business model has been impaired, then investors need to sell and move on.

"When we buy a stock we are looking to buy a Ferrari, but want to pay the price of a Ford."

4. Has the stock become too large within the portfolio? We do not want one security dominating the outcome of a portfolio. So, if a stock has appreciated to where it is too large within a portfolio, we will look to sell at least a portion of the position. In this case, one of the hallmarks of rebalancing a portfolio on a regular basis is to prevent concentration risk from occurring.

A good example of this is through the defense contractors, such as **Lockheed Martin (LMT)**. When President Obama was first elected the economy was in shambles. One way the president wanted to cut spending was on the defense budget. As a result, all of the defense contracting stocks sold off hard. In 2011, Point View started adding them to client portfolios, particularly LMT. At the time, the market was focused on short term concerns and not appreciating LMT's $400bill backlog of the F-35 fighter jets. In addition, shares of LMT offered a ~5% dividend yield. As time passed, LMT's earnings grew ahead of expectations despite the headwinds, and its stock price appreciated strongly. Recently, in most portfolios, LMT (and the other defense contracting stocks) has become too large of a position, and valuation not as attractive as 2011. To avoid concentration risk and implement our sell discipline, the position will be trimmed back and we will

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Rising Rates and Your Portfolio

By Donna M. St.Amant, MBA, and Portfolio Manager at Point View Wealth Management, Inc.

The topic of rising interest rates has consumed the financial media. One cannot escape the speculation about when rates will move higher. We do know the Federal Reserve has ended its easing policy and that an increase in the Federal funds rate will follow as soon as economic growth and the job market are on solid ground. When this will occur and the real impact on long term rates is not so clear. Predictions on timing keep getting pushed out as we wait for the Fed to make its move. With timing so uncertain, how can investors properly align their portfolios? It makes little sense to react to headlines; far better to be prepared.

From a broader perspective there are numerous ways an increase in rates can impact the markets. The magnitude of the impact is uncertain and depends on how quickly rates move up, what expectations are inherent in the market, and how U.S. rates compare to other global markets.

Housing market. As longer term interest rates rise it becomes more costly to purchase a home. Demand weakens and new home sales slow. This can trickle down to many other sectors of the economy, including businesses that supply materials for home construction and banks that see less loan activity.

Borrowing costs for businesses increase. Companies do plan and budget for higher borrowing costs, but if the rate of change is greater than expected it can cause businesses to put projects on hold, slowing growth for some companies.

Bond market. Interest rates and bond prices move in opposite directions. As interest rates in the market move higher, prices on existing bonds will decline. Older bonds offer interest rates that are lower than prevailing market rates; therefore prices on these bonds fall so that the yield to maturity equals that of newly issued bonds sporting current (higher), interest rates. The size of the price decline varies greatly depending on the bond's maturity.

"Predictions on timing keep getting pushed out as we wait for the Fed to make its move"

Bonds with longer maturities are more sensitive to rising rates, while those maturing in a few years are less affected. Duration is a measure of a bonds sensitivity to interest rate moves. In general a 1% rise in rates will cause roughly a 1% decline in the price of a bond. If you own a fixed income mutual fund the fund's duration will provide a gauge as to how sensitive it is to rate moves.


Donna St. Amant, MBA

Stock market effect can be varied because so many factors are at play. While it can be expected that economic growth will be strong enough for the markets to support higher rates, the market's reaction is also influenced by expectations. A rate rise will certainly come as no surprise at this point, and a slow gradual rise in rates is likely priced in. Still, the anticipation of higher rates in itself brings volatility to the market. Investors often try to get ahead of the rise and therefore sell during the time leading up to a rate hike. If interest rates move high enough that we see 5% rates on a CD for example, the risk-return dynamic changes as investors begin to reassess their desire to allocate so much to riskier assets such as stocks. Over the long term, it should be good for stocks as it indicates that corporate earnings are strong.

Considering all of these changing components what is the best way to protect your investments?

Investors should not react to headlines and rate predictions by reallocating stock and bond holdings. Decisions about asset allocation should be based on long term goals, aligned with one's risk tolerance and designed to protect the overall portfolio when market volatility occurs. For a long term investor a well-designed portfolio provides both growth and capital preservation. It should protect in times of market volatility brought on by such events as a rise in interest rates. Investors are encouraged to stay the course and rebalance regularly. However, there are a few things to consider when determining whether your portfolio is set up properly given today's rate environment.

"From a broader perspective there are numerous ways an increase in rates can impact the markets"

Diversification is key. Balance holdings between stocks, bonds and cash to reflect long term goals and risk appetite. Vary bond holdings across different sectors and maturities. Reduce exposure to those bonds maturing beyond ten years. If you have conviction about higher rates, add some floating rate notes to the portfolio. Diversify your stock positions across sectors and add international exposure. International stocks typically outperform during a U.S. Fed tightening cycle. This applies to bonds as well. Global bonds are influenced by another set of economic conditions and global rates, and may not be impacted in the same way as U.S. debt. International bonds add another level of diversity to a comprehensive bond portfolio.

Manage maturity. Selling all your bonds in fear of falling prices is not the answer, but it would be wise to shorten the maturity of the portfolio to temper any price fluctuation. It

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Taking Inventory of Municipal Bonds

By Elaine F. Phipps, MBA, CFA, and Portfolio Manager at Point View Wealth Management, Inc.

Municipal bonds have long provided a tax-advantaged investment option for those in higher tax brackets. Their exemption from federal, and often state and local taxes, makes them attractive on a taxable equivalent basis to other fixed income options. However, municipal bonds can be used by investors in any tax bracket to offer a solid, relatively safe by historical standards, return. Municipals currently offer a superior return to Treasuries and help you manage the risk of your aggregate portfolio by incorporating debt of states and municipalities. Furthermore, as income tax rates have increased for many in this country due to Obamacare, the investment income surcharge and hikes in Medicare payroll taxes, muni bonds have become especially appealing.

"The allure of municipal bonds has not been lost on investors as the sector enjoyed a sustained rally through 2014"

That Appeal – The allure of municipal bonds has not been lost on investors as the sector has enjoyed a sustained rally. In our low interest rate environment, rates on longer-term debt issued by U.S. states, cities and municipalities looked appetizing vs. Treasuries, especially on a tax-adjusted basis. According to Barclays, the sector was up 9% in 2014 on a total return basis.

Current Environment - Looming concerns about interest rate increases by the Fed have torpedoed the bond market thus far in 2015, and municipals have been no exception. June is on track to bring home the third month of price declines. Lingering concerns about the Puerto Rico debt refinance, continued troubles in Illinois and heavy debt issuance by municipalities have propelled yields higher. The upside for investors is that they can now pick up greater return from municipals than their taxable equivalents, even before the tax adjustment. Buy a 15 year triple A rated muni and pick up 20 basis points in yield over a comparable Treasury. The further down the credit curve you move, the greater the pick-up.

Elaine F. Phipps, MBA, CFA

Taxable Portfolio Strategy - As dividends and capital gains are taxed at a lower rate than interest, we usually advise clients to hold, to the extent possible, equity in taxable accounts and fixed income in tax-deferred accounts. Should fixed income be held in the taxable, we recommend municipal debt to bring down the tax liability.

Tax-Deferred Portfolio Strategy – Even in a tax deferred portfolio, municipals can play a valuable role. We advocate placing higher yielding taxable municipals in IRAs, Roths and other tax-deferred accounts. Taxable municipal bonds are often issued to finance a project that does not provide a major benefit to the general public, such as a stadium. As such, the federal government will not provide the tax-exemption. Taxable municipals often have a higher yield than Treasuries, agency bonds and corporates.

Individual Bonds vs. Funds– When purchasing an individual bond you know exactly – absent default – what you will get back at maturity. When bond funds are purchased, capital gains and losses are often outside of your control, determined by the portfolio manager or redemptions of the funds. That being said, it is often difficult to gauge the long-term credit risk of an issuer without substantial research or to buy enough bonds to offer diversification. We recommend sticking with high quality municipal bonds with maturities timed to meet your cash needs. This mitigates credit risk and capital gains surprises. Should you go the fund route, choose a well-diversified and high credit quality fund.

Diversify Your Holdings – The grand mantra of investing should apply to your municipal bond portfolio as well; buy a basket of diversified geographies and issuing entities. While there are concerns about Illinois, Puerto Rico, New Jersey, and California, other states are enjoying a strong economic climate. Balance the higher yields you will receive from California with the lower rates of thriving Virginia, North Carolina, and Georgia.

"Looming concerns about interest rate increases by the Fed have torpedoed the bond market thus far in 2015, and municipals have been no exception"

Watch the Headlines for Credit Issues – The Detroit news of past has now been replaced with concerns about Chicago, the State of Illinois, and Puerto Rico. Chicago debt was downgraded below investment grade status by Moody's in May, most notably because of the city's public pension dilemma. Puerto Rico continues to looks for ways to restructure its debt. Yields on credits of these entities have risen dramatically as a result of the news. Looking back at recent history, the S&P Municipal Bond Index had a 0.11% default rate in 2013, even with the Detroit bankruptcy. While yields are compensating investors somewhat for this risk, this type of investing may not be for the faint-hearted.

General Obligation (GOs) and Basic Service Bonds Appeal – Consider GOs, which are backed by the full taxing authority of the issuing municipality, and bonds tied to basic services such as water and sewer services. For GO's, the issuing municipality has the ability to levy additional taxes to pay the bond interest. These bonds are considered the safest. Revenue bonds are usually structured to finance a particular project

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Your Social Security Moves. . continued from page 3

what you get for every year (up until age 70) that you delay claiming your Social Security benefit.

Despite that, most people choose to take their benefit at age 62, accepting as much as a 30 percent haircut compared to waiting for full retirement (age 66-67). Why? The stated reasons vary from being fearful that Social Security will go bankrupt (not for the next several decades at least, and very likely not then) to thinking that lifetime benefits are larger if claimed sooner. That's a fallacy—if you plan to live until at least age 75, you are better off claiming at full retirement. If you plan to live until at least 82 or 83, you are best off claiming at age 70. Even by the government's very conservative standards, today's 66 year old has more than 20 years to live. Unless you've received very bad medical news, hold off claiming your Social Security benefit as long as you can.

"The bottom line is that taking Social Security before full retirement age will cost you."

As that suggests, it's important to know what your full retirement age is, and it varies. For those born between 1943 and 1954, full retirement age is 66. Thereafter, it increases by two months per birth year until topping out at age 67 for those born in 1960 or later.

If you claim benefits before full retirement age and continue to work, those benefits are reduced by $1 for every $2 you earn in excess of $15,720 (that number adjusts annually for inflation). A year after you reach full retirement age, your benefits will be adjusted upwards to compensate, but the bottom line is that taking Social Security before full retirement age will cost you.

Key Move Number Three: Plan for Your Spouse. Anyone with about ten years in the work force has earned his or her own Social Security benefit. Still, the lower earning spouse remains entitled to the larger of her (it is still typically the wife) own benefit or half of her husband's. That latter is referred to as the spousal benefit. You won't see the spousal benefit on your own Social Security statement—simply divide your spouse's benefit in half. Whether the lower-earning spouse is better off with the spousal benefit or with her own varies, but there are a few constants.

The spousal benefit reaches its maximum at full retirement age. Waiting until age 70 to claim it is self-defeating. For the lower earning spouse to receive the spousal benefit, the higher earning spouse must claim his. That's where things can get tricky—a well-advised higher earning spouse should wait until age 70 to claim his own benefit.

The solution is the oft-heard "file and suspend" process. Once both spouses have reached full retirement age, the higher earning spouse should file for benefits and immediately suspend his. By filing, he allows the lower earning spouse to claim the spousal benefit.

If the lower earning spouse's own income history would provide a benefit higher than the spousal benefit, she can claim the spousal benefit at full retirement age and switch to her own benefit at age 70. Here, it is particularly important that the lower earning spouse wait until her full retirement age to claim the spousal benefit—if she claims earlier than that, she is relegated to her own benefit, significantly reduced from what it would have been at age 70.

"The greater the age difference between the spouses, the more important it is for the higher earner to delay claiming."

The spousal benefit is available to divorced persons as well, so long as the marriage lasted at least 10 years. The higher-earning divorced spouse does not need to cooperate in the application process, but there are some special twists.

Another reason the higher-earning spouse should wait until age 70 to claim benefits is death. After the first spouse passes away, the survivor is entitled to the higher of the two benefits. If the higher-earning spouse took benefits early, the widow is adversely affected. The greater the age difference between the spouses, the more important it is for the higher earner to delay claiming.

Rising Rates and Your Portfolio. . . . continued from page 5

is also likely that with bond yields so low, investors have added riskier assets to their fixed income portfolio to add more yield or moved into high dividend paying stocks. Now would be a good time to pare back that exposure and move into more traditional types of fixed income instruments with a maturity target inside of ten years. If you are planning to hold bonds to maturity the rise in rates is not as critical.

Ladder your bond holdings. Another approach is to ladder your fixed income holdings. A strategy similar to dollar cost averaging, an investor invests in the bond market slowly. Bonds are purchased with consecutive maturity dates so that a portion is maturing each year; this provides liquidity and the ability to reinvest at the current interest rates. This is beneficial in a rising rate environment.

Equity exposure. When rebalancing, and adding equity exposure to the portfolio, focus on sectors that will benefit from higher rates such as financial and cyclical stocks. Earnings in the defensive sector are stable and should remain so even when rates are rising, so they can add some safety to the mix. That doesn't mean to ignore the other sectors all together but to be prudent in looking for companies that offer value.

Taking Inventory of Municipal Bonds

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such as a stadium or highway, and coupon payments are dependent on the revenue being generated by the completed project. For revenue bonds used to finance basic utilities such as wastewater treatment, keeping clean water running is often a priority for consumers and towns so revenue streams are generally secure. However, revenue bonds tied to stadiums are the most economically sensitive as attendance may suffer in a downturn. Private purpose bonds such as these are also subject to the Alternative Minimum Tax (AMT).

Don't Feel Compelled to Support Your Home State – Bonds issued by your domiciled state have the advantage of being triple tax-exempt – from federal, state, and local taxes. However, the tax savings may not be worth the risk should something go wrong. We don't advocate a resident of California loading up on debt in that state. Bonds from states without income tax, such as Florida and Texas, often yield more as an enticement to out of state investors. In addition, U.S. territories such as Puerto Rico and the Virgin Islands historically have also offered debt free from any state or local taxes. However, Puerto Rico is one of the headline news credits right now.

Is Bond Insurance Really Worth It? – If you go to buy a Chicago bond today, you may see an AA rating assigned to it as a result of the insurance supporting the issue. Major bond insurance companies are AGC, AMBAC, and MBIA. These companies insure over $72B of Puerto Rico's current debt outstanding. It is reasonable for investors to question how valuable this insurance is and the likelihood of payout given the sheer size of the troubled debt market. Accordingly, investors should carefully diversify their exposure to the bond insurance companies.

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Certainly, as the second largest energy company in the US, it will profit mightily should prices rise.

But a sideways market can also work. Chevron's geographical reach and diversification into refining and chemicals can help mitigate weaker revenue growth. Its capital expenditures annually exceed many smaller outfits, giving it tremendous cost cutting opportunities and staying power until the next energy bull market.

While you wait, enjoy the 4%+ dividend, with a stock price less than 8 times cash flow and just one times revenue. That dividend is six times what an investor will receive in a German 10 year bond, and about twice the US 10 year Treasury. That dividend has more than doubled over the last decade.

Sell Discipline: The Art of 20/20 Hindsight

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find better upside in another idea.

The day to day movement of the market is out of anyone's control and because of this can cause investors to become overly exuberant, or unnecessarily frightened. However, what investors must do is remain disciplined to a process and philosophy. Understanding that the time to buy a stock is most likely when everyone else thinks it's too risky, which is what has made the stock cheap and attractive to begin with. Conversely, the moment the market thinks a stock can do no wrong is the time to sell, again not easy to do when going against the crowd.

Selling a stock is not, nor does it have to be, an all-or-nothing event. Investors can simply "take some money off of the table." A key component to portfolio management is recognizing when the time is to cut back a stock to manage the best risk reward for the client. On the other hand, investors can build into a position, buying into an investment over time, whether through dollar cost averaging, or following a stock, being patient, watching the market's reaction to news, and buying the dips.

Those that remain disciplined to a process and rebalance their portfolios often, will be rewarded over time. No one gets the market correct on a day-to-day basis. The goal is to achieve returns that are reasonable given an investor's time frame and risk tolerance.

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