

6 Ways to Increase Your Monthly Income

An Investment Guide for Retirees

I decided to retire in 2008, at the ripe old age of 55. I thought it was the best route for me to take in order to live a longer, healthier, more productive life. I wanted to escape the rat race of working on Wall Street for most of my adult life and finish my life doing things of significance, like mission work, poverty issues, and evangelistic endeavors. It didn't take me long to figure out that one of the most important things I would need in retirement was monthly income, after all, life costs money. Since I worked decades in the investment world, I pretty much knew what I had to do if I wanted to maintain a contented lifestyle. So, I converted part of my portfolio to income-producing investments. By doing so, I receive the income I need, so I can live happily ever after.

So, here you go, 6 income-producing investments that can produce above average monthly or quarterly returns:

“The two most beautiful words in the English language are, ‘Check Enclosed.’”
—Dorothy Parker

1. Bonds

Bonds come in all shapes and sizes. There are corporate bonds, treasury bonds, municipal bonds, global government bonds, junk bonds, to name but a few.

Bonds are called fixed income securities because they pay a fixed interest rate. When you purchase a bond, you will receive periodic interest payments (usually twice a year) until the bond matures, anywhere from one to 30 years.

Generally speaking, the higher the yield, the lower the quality of the bond. Be very careful and do your homework before making a purchase. If you want safety and guarantees, buy U.S. Treasuries or Munis. If you want higher returns, consider corporate or high yield bonds. It depends on if you want to sleep well or eat well. Bonds provide relatively safe and predictable income. They are also a very important part of a well-diversified portfolio and risk mitigation.

Here's another very important point:

Bonds sometimes give you a better return than stocks. In fact, bonds outperformed stocks ten out of the 38 years from 1980-2017. That is just about one out of every four years. That comes in pretty handy when the stock market is getting trashed over a prolonged period of time.

2. Real Estate Investment Trusts (REITs)

For years, real estate investment trusts (REITs) have been a good investment to own in a portfolio. A REIT is a professionally managed company that owns or finances income-producing real estate. REITs can provide investors with regular income streams, capital appreciation, and diversification. Unlike other investments, REITs must pay out at least 90% of their taxable income as dividends to shareholders, which are generally taxed at a lower rate than ordinary income. That's a good thing. Publicly traded REITs are bought and sold on the major stock exchanges like an individual stock, therefore making them extremely liquid and desirable. Real estate investment trusts were created by Congress (the opposite of progress) and signed into law by President Dwight D. Eisenhower in 1960. Since then, the REIT industry has grown into a trillion-dollar business.

Real estate investment trusts are truly a passive investor's dream come true – no toilets to fix, no repairs to make, no tenants to chase for rent payments and no one to clean up after. REITs have historically been one of the top performing asset classes with a double digit average annual return over the past 40 years.* They are worth a serious look. Never forget, all investments have some sort of risk, including REITs. Poor management, vacancies, business failures, etc. Always do your homework.

3. Annuities

Annuities have been around for a very long time. In fact, the idea of paying out a stream of income dates back to the Roman Empire.

An annuity is a type of policy or tax deferred savings plan issued by an insurance company. Annuities can also create a stream of income for a fixed number of years or for a lifetime.

Annuities come with guarantees. These guarantees are made by the insurance company issuing the annuity. Additionally, each state has a guarantee association that protects consumers in the unlikely event an insurer becomes insolvent and is unable to honor its commitments. For example, in the state of Florida, the guarantee is \$300,000 per annuity.

*Social Security lasts for life and so does an employer pension.
If you don't have a pension, annuities can serve as a pension substitute. —AARP*

Your principal is fixed and guaranteed by the insurance company. Gains are usually locked in each year, and you can mix and match different types of annuities to create a guaranteed tax favored income stream in retirement that is not influenced by interest rates, market fluctuations, or other market influences.

* Source: NAREIT

Fixed annuities are one of my favorite sources of revenue. I really like guaranteed income for life!

4. Stock Dividends

Here's why dividends are so important:

First of all, if you are retired, they help supplement your income.

Secondly, according to Ned Davis Research, Inc., over the past several decades, 42% of the annual total return of the S&P 500 was derived from dividends. Get the implications?

Buy a non-dividend paying stock and you likely will miss out on a lot of money. According to the same research, dividend paying stocks outperformed non-dividend paying stocks over the past forty plus years by 6% per year and with lower risk.

A dividend is a distribution (normally cash) of a portion of a company's earnings, decided upon by the board of directors and paid to its shareholders. Dividends are usually paid out on a quarterly or annual basis. Receiving dividends is one of the ways an investor makes money. Bottom line, a dividend is your share in the apportioned profits of a company you own stock in. Attractive, don't you think?

At any given time, there are blue chip stocks paying a 4-5% dividend yield. Look closer and you'll be able to find 6-8% yields on utilities and energy companies.

5. Closed End Mutual Funds (CEFs)

Want to buy \$1 worth of stock for 90 cents or less? You can just about any day the stock market is open. Closed end mutual funds are an often-overlooked investment. They often trade at significant discounts to their net asset value.

They are ideal for investors who want more income because many pay very high yields. You can shop for attractive yields and discounts on closed end funds daily in the "Wall Street Journal." If you buy them at the right price, they can be real gems.

6. Preferred Stock

Preferred stocks, also known as preferred shares, are securities that are considered 'hybrid' investments with both equity and fixed income characteristics. They normally carry no shareholder voting rights, but usually pay a fixed dividend.

For income seekers, preferreds can offer great deals with yields in the 4-6% range. Plus, preferred dividends tend to be taxed at rates below those of ordinary interest, making them

even better if you're in a high tax bracket. You can buy a fund that holds nothing but preferred stocks or see what's available through an online broker.

As always, do your homework and due diligence before you make any investment. Remember, all investments have risk.

Here's what income-producing investments can do for you:

A gentleman approached me for investment advice in the latter part of 2009. He had a \$1.2 million retirement portfolio made up of mostly individual growth stocks and mutual funds, which generally do not pay dividends. Prior to the "Great Recession" stock market meltdown of 2007-2009, his investment account was worth \$2 million. Not only had he lost his shirt, he had also lost \$800,000. One of the reasons for the 40% decline was that he was forced to sell more shares at a substantial discounted price in order to generate the \$60,000 per year he needed to live on. Selling low is not a great investment strategy; it was wreaking havoc on his investments.

To further illustrate, suppose I purchased a large number of shares of a company trading at \$100 each. I plan on selling one share per month (\$100) to supplement my income. Now, suppose my stock declines by 50% to \$50 per share. In order for me to get my \$100 per month, I now must sell two shares. I will run out of shares and money a lot sooner if the stock stays depressed for a prolonged period of time. To say the least, this man was in trouble.

Imagine working your entire adult lifetime to accumulate a good-sized nest egg only to lose 30, 40, or even 50% of your life savings in just a couple of years. Fortunately, I was able to help guide him back to solvency. By selling what he had in his portfolio and purchasing an assortment of income-producing investments, the bleeding stopped. He was now able to live off the income (still \$60,000) and not have to sell any shares while maintaining his standard of living. \$1.2 million x 5% (dividend income) equals \$60,000 per year. Here's the really good news for my new best friend. His portfolio recovered sooner because he was able to stop selling shares in his portfolio at a discounted price.

I think you'll agree, more income comes in handy. These 6 investments can easily enhance your monthly cash flow. Enjoy!

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