Exploring Income Options

Finding the Right Balance Between Income and Risk

Whether you’re in the middle of your career, plan to stop working soon, or are well into retirement, income-oriented investments can help you generate needed cash flow while aiming to preserve your wealth.

Income investments come in many forms – bonds, such as government, corporate, and emerging markets debt; equities, such as dividend-paying stocks; and alternative investments such as real estate investment trusts and master limited partnerships.

The performance of each option will differ. Some feature modest but relatively stable yield and risk. Others generate greater cash flow but can be accompanied by considerable fluctuation in value and risk.

Understanding the attributes of each can be critical to selecting the investments that are right for you. Whichever you choose, you should take into account your income needs as well as your ability to withstand their ups and downs.

**DIVIDEND-PAYING STOCKS**

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<tr>
<th>Benefits</th>
<th>Cautions</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Include stable dividend-paying stocks as a common source of payments for cash flow needs</td>
<td>Carry the possibility of large market swings and loss of principal</td>
<td>Dividend-Paying Stocks, including Non-U.S. Stocks and Utilities</td>
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**BONDS**

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<th>Benefits</th>
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<td>Offer a wide range of yield opportunities through various sectors, maturities, and credit qualities</td>
<td>Subject to interest rate risk when rates rise</td>
<td>U.S. Treasuries, U.S. Agencies, Corporate Investment Grade, High-Yield Corporates, High-Yield Municipals, Commercial Mortgage-Backed Securities (CMBS), Emerging Markets Debt</td>
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**ALTERNATIVES**

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<th>Benefits</th>
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<td>Aim to manage volatility with differentiated sources of income and returns. Have historically moved independently from stocks and bonds</td>
<td>Include non-traditional assets and often use complex trading strategies. You’ll want to be aware of each investment’s unique risks</td>
<td>Real Estate Investment Trusts (REITS), Master Limited Partnerships (MLPS)</td>
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Collect Interest Income, Mitigate Equity Market Volatility

Receive Dividend Income, Provide Growth Potential

Add Non-traditional Income Sources, Buffer Market Risks
Understand the Tradeoffs

Higher income – like higher returns – sound appealing. But it's important to consider that the higher an investment's income potential, the more susceptible it may be to declines in value and fluctuations in income.

The chart below illustrates current yields of select income-oriented asset classes. It also demonstrates that, over the past 20 years, when markets have declined, the highest-income options have lost anywhere from 30% to 70% of their value.

If you need the income and can weather these ups and downs, then the higher-income options may make sense for you. If those same swings cause you to lose sleep at night, then you may be better suited to lower-risk options that offer greater stability along with more modest income potential.

Consider a Multi-Asset Solution

Combining asset classes can be an effective option for generating the income you need without taking on undue risk. Yet assembling the right mix can be challenging given the complexity of financial markets.

You may want to consider a multi-asset income fund.* These funds draw on the expertise of professionals who are skilled at analyzing investments across asset classes and assembling a blend that pursues the income you need while also managing risk.

Rely on a Trusted Partner

A financial professional can help you select the right investments based on your specific goals, how you feel about risk and your individual income needs.

Data as of 3/31/2017. Max drawdown measured as return from peak to subsequent trough over the past 20 years.

Source: FactSet

U.S. Treasuries are represented by Bloomberg Barclays Global US Treasury Index; Core Bonds are represented by Bloomberg Barclays US Aggregate Index; Investment Grade Corporate is represented by Bloomberg Barclays US Aggregate Credit - Corporate - Investment Grade Index; REITs are represented by FTSE NAREIT Composite; High Yield is represented by Bloomberg Barclays US High Yield - Corporate Index; EMD Local Currency is represented by JP Morgan GBI-EM Global Diversified Composite Index.
Definitions

Alternative Investments
Assets outside of traditional stocks, bonds and money markets that use advanced techniques to manage volatility, lessen the impact of severe market swings and improve diversification. They come with a variety of risks.

Commercial mortgage-backed securities (CMBS)
MBS that represent ownership in pools of commercial real estate loans used to finance the construction and improvement of income-producing properties, including office buildings, shopping centers, industrial parks, warehouses, hotels, and apartment complexes.

Emerging Markets Debt
Debt issued by countries whose economies are considered to be developing or emerging from underdevelopment.

Master Limited Partnerships (MLPs)
Publicly traded, generally higher yielding securities of enterprises that engage in certain businesses, usually pertaining to the use of natural resources.

Real estate investment trusts (REITs)
Real estate investment trusts (REITs) are securities that trade like stocks and invest in real estate through properties or mortgages.

High-yield corporate bonds
High-yield corporate bonds are higher-risk, high-yielding taxable bonds comprised of debt instruments from corporations rated below BBB by Standard & Poor’s.