Mid-March 2014, and many market forecasts are already looking suspect. Most of the 2014 forecasts were positive on stocks, albeit at a lower return after such a strong year in 2013, and negative on bonds. However, January was a down month for stocks and a very strong month for bonds, February saw stocks rebound and bonds range-bound, and March thus far has stocks down more than up and bonds still range-bound. With apologies for altering the famous quote attributed to Audrey Hepburn in *Sabrina*, “Paris is always a good idea,” I would say that “income is always a good idea,” and diversifying an income stream is also a good idea. Income can come from a variety of sources. Below, I discuss a few that might be timely for 2014 and beyond.

**Dividend-paying stocks**

One of the cornerstones of a portfolio that can provide potential growth of capital as well as increasing income is dividend-paying stocks. Income and total-return oriented investors who are suitable for equities may consider the potential benefits of investing in companies with long track records of increasing dividends annually. Dividend increases can also help investors keep up with inflation over time. Companies that increase their dividends on an annual basis may provide a better total return experience than companies with the highest-yielding dividends. Many high-quality companies were forced to cut or abandon their dividends after the financial crisis of 2007. But today, many companies have repaired their balance sheets and are in strong financial shape, with the ability to pay and grow their dividends.

**Municipal bonds**

In 2013, many municipal bond investors “threw the baby out with the bathwater.” High-profile credit and/or bankruptcy news from cities like Detroit caused fear among many retail investors, as evidenced by a 32-week period in which municipal bond funds experienced outflows. Today, however, investors may now be realizing the value of municipal bonds’ high-quality, tax-exempt income. Flows turned positive in January 2014, and prices have begun to recover.

**Master limited partnerships (MLPs)**

Equity shares in MLPs are traded on securities exchanges like shares of common stock. Most MLPs operate in the energy sector, with a particular emphasis on the midstream sector of the energy value chain, which includes the infrastructure necessary to transport, refine and store oil and gas. MLPs generally distribute nearly all of their income to investors in the form of quarterly distributions. They are not required to pay out a certain percentage of income but are able to do so because they do not pay
corporate taxes.

**Preferred securities**

Many income-oriented investors have found that preferred securities can serve as a strong diversifier as well as a source of potentially consistent income for a portfolio. Simply put, preferred securities are a different class of ownership in a corporation that has a higher claim on the capital structure than common stock. Preferreds also typically have dividends or interest that must be paid out before dividends to common stockholders.


** General Income Producing Asset Classes**

<table>
<thead>
<tr>
<th>%</th>
<th>Municipal closed-end funds**</th>
<th>Tax-Exempt Municipal (BoA Merrill Lynch Municipal Master Index)</th>
<th>Taxable closed-end funds**</th>
<th>Dividend-Paying Stocks (S&amp;P Dividend Aristocrats Index)</th>
<th>MLPs (Alerian MLP Index)</th>
<th>Preferreds (BOA/ML Preferred Stock Tied Rate Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.14</td>
<td>3.67</td>
<td>7.75</td>
<td>2.36</td>
<td>6.04</td>
<td>6.17</td>
<td></td>
</tr>
</tbody>
</table>

* Yield unless otherwise noted.

** Averages of Municipal closed-end funds and Taxable closed-end funds broad category groups in the Morningstar closed-end fund universe. Morningstar assigns categories based on average holding statistics over the past three years. Morningstar’s editorial team reviews and approves of all category assignments. Income is measured by the distribution rate for closed-end funds.

**Important information**

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis (NYSE: AMZ) and on a total-return basis (NYSE: AMZX).

The S&P 500 Dividend Aristocrats Index is an index composed of 40 companies in the S&P 500 Index that have had an increase in dividends for 25 consecutive years. The S&P 500 Dividend Aristocrats Index tracks the performance of these companies. A dividend aristocrat tends to be a large blue-chip company. Indices are statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index.
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The BofA Merrill Lynch Municipals Master Index measures total return on tax-exempt investment grade debt publicly issued by U.S. states and territories, and their political subdivisions, including price and interest income, based on the mix of these bonds in the market. This index is often used as a reference for the performance of tax-exempt U.S. municipal bonds.

The BofA Merrill Lynch U.S. Preferred Stock Fixed Rate Index consists of fixed rate U.S. dollar denominated preferred securities and fixed-to-floating rate securities that are callable prior to the floating rate period and are at least one year from the start of the floating rate period. Securities must be rated investment grade including the country of risk and must be issued as public securities or 144a filing and a minimum outstanding of $100 million. The index includes perpetual preferred securities, American Depositary Shares/Receipts (ADS/R), domestic and Yankee trust preferred securities having a minimum remaining term of at least one year, both DRD-eligible and non-DRD eligible preferred stock and senior debt.

About risk

Common stocks do not assure dividend payments. Dividends are paid only when declared by an issuer’s board of directors and the amount of any dividend may vary over time.
In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer’s ability to make payments of principal and/or interest.

Preferred securities may include provisions that permit the issuer to defer or omit distributions for a certain period of time, and reporting the distribution for tax purposes may be required, even though the income may not have been received. Further, preferred securities may lose substantial value due to the omission or deferment of dividend payments.

Shares of closed-end funds (CEFs) frequently trade at a discount to their net asset value in the secondary market and the net asset value of closed-end fund shares may decrease.

Depending on a CEF’s underlying holdings, its distributions can include interest income, dividends, capital gains or a combination of these types of payments. In some cases, distributions also include a return of principal, sometimes referred to as a return of capital. That means the monies used to pay the distribution come from the fund’s assets rather than from any income generated by the investments in the fund’s portfolio. CEFs that return capital can carry a higher level of risk because the fund is eroding the asset base it has to generate income to pay distributions.

Most MLPs operate in the energy sector and are subject to the risks generally applicable to companies in that sector, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs are also subject the risk that regulatory or legislative changes could eliminate the tax benefits enjoyed by MLPs which could have a negative impact on the after-tax income available for distribution by the MLPs and/or the value of the portfolio’s investments.

Diversification does not guarantee a profit or eliminate the risk of loss.

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