Financial Communications

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Finding Sources of Yield

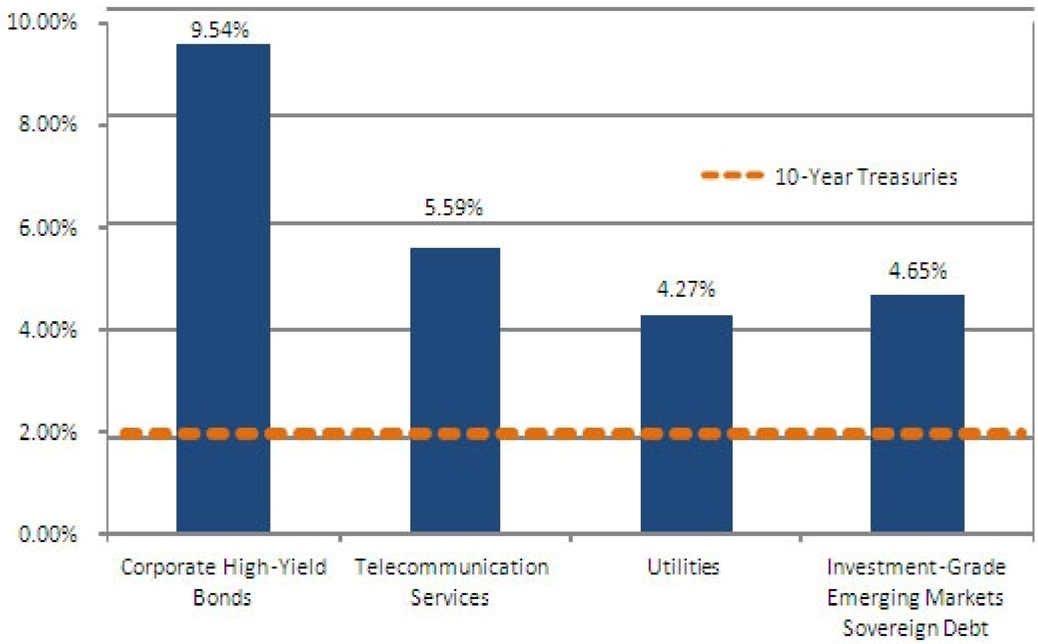
With 10-year U.S. Treasury bonds and dividend-paying stocks within the S&P 500 yielding less than 2.5%, income-oriented investors are hard-pressed to rely on their portfolios as sources of income. Where can you look for better yields?

Many income-oriented investors are frustrated by the current low yields of both U.S. Treasury securities and dividend-paying stocks. But broadening the search for yield uncovers opportunities for diversifying potential sources of income.

With 10-year U.S. Treasury bonds yielding 2.23% and dividend-paying stocks within the S&P 500 yielding 2.5% as of September 30, 2011, income-oriented investors are hard-pressed to rely on their portfolios as sources of income.[1] But an analysis reveals opportunities for yield that investors may want to consider. Higher yields can mean more risk, so it is important to balance risk and potential return.

A Yield Sampler

The chart below presents examples of investments that recently have yielded significantly more than 10-year U.S. Treasury bonds. The yields of some corporate high-yield bonds compensate investors for default rates that historically have exceeded the broader fixed-income universe.[2] What's more, Standard & Poor's believes that savings in operating and capital expenses, along with broadband growth, will support dividends for the S&P 500 Telecommunication Services sector. For Utilities, Standard & Poor's anticipates that higher revenue among electric utilities and expanding gross margins for gas utilities will cause the sector's attractive dividend yield to be maintained. Emerging market sovereign debt provides exposure to markets where economic growth currently exceeds the developed world while avoiding troubled European markets.



Sources: Standard & Poor's; Merrill Lynch; the Federal Reserve. Yields of Telecommunication Services and Utilities are based on stocks in the respective sectors within the S&P 500, corporate high-yield bonds by the Merrill Lynch High-Yield Master II Index, emerging market sovereign bonds on the Merrill Lynch Emerging Market Sovereign Bond BBB U.S. Dollar Index, U.S. Treasury securities on 10-year yields published by the Federal Reserve. All yields are as of September 30, 2011. You cannot invest directly in an index. Past performance does not guarantee future results.

What Investors Can Do

When considering income-oriented investments, take the following into account:

- **Diversify sources of yield.** Relying too much on one or two income-oriented securities can leave you exposed to unanticipated changes in the financial markets.
- **Review your risk tolerance.** High-yield bonds historically have experienced higher default rates than investment-quality issues. Keep in mind that bond prices decrease when interest rates rise, opening you to downside risk if inflation edges up and market interest rates start to rise from their current historical lows. Holding a bond to maturity eliminates this secondary market risk.
- **Consider your asset allocation.** Since yield is available from both stocks and bonds, you may be able to create a high-yielding portfolio within the framework of your desired asset allocation. Within a stock allocation, equities within the S&P 500 Dividend Aristocrats have increased dividends every year for at least 25 years. Within a fixed-income allocation, municipal bonds are another source of yield that may present tax benefits.[3]

Diversifying your sources of yield, paying attention to your risk tolerance, and reviewing your asset allocation can help you craft a strategy that you can follow for the long term.

[1]Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, offer a fixed rate of return and fixed principal value.

[2]Lower-quality debt securities involve greater risk of default or price changes due to changes in the credit quality of the issuer. They may not be suitable for all investors. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus. Emerging markets are generally more volatile than the markets of developed foreign nations, and therefore you should consider this increased market risk carefully before investing. Investors in international securities may be subject to higher taxation and higher currency risk, as well as less liquidity, compared with investors in domestic securities.

[3]Municipal bonds are subject to availability and change in price. They are also subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax free, but other state and local taxes may apply.