

<b>Market Outlook:</b>
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**Stocks are the new Bonds**

Despite projections that interest rates might enter a secular upswing if the economy continues to improve, the inescapable fact is that bonds, and other fixed-income securities, are not the place for investors to generate yield, stocks are. **The way to improve upon dwindling dividend and interest investment objectives is to build a portfolio of high yield equities, and to protect against downside market volatility with select stop-loss support.** While yield and dividends are typically expressed as a finite integer, risk is not often as quantifiable, unless one applies certain metrics for cycle magnitude and expectations for cycle amplitude (duration).

Equity dividend portfolios require certain assumptions and forecasts. Using historical dividend acceleration patterns can mitigate against macro exogenous events which might affect stock selection, overall.

At the end of the day, yield (interest) is simply a payment to the security holder. We can get yield from bonds, ETF's, partnerships, or options. Looking at equities as an income source is not a "trick" to divert attention from traditional methods, but rather a way of expressing a new reality of cycle phase evaluation as it relates to the evolution of asset allocation and dividend studies.

Over the past year, as the equity markets have gained greater momentum, the risk in substituting stocks for bonds as an income source has diminished. Starting with the aggregate yield on a basket of stocks versus the current high yield return on bonds, one must conclude that projected returns might be higher in the former versus the latter. Last year, for example, our equity portfolios approximated a dividend interest return at a multiple of several times the fixed income benchmark we established. Combining Utility stocks with income producing growth stocks, our objective was to mesh the allocation totals with cash reserves to meet client expectations for capital preservation, capital gains, and competitive returns. For the most part this evolution away from bonds was caused by maturing securities and short duration objectives.

**Dividend stocks with specifically measureable volatility quotients have a much higher probability of generating "income" in 2014 than is attainable in the fixed income markets.**

While there are always risks associated with yield optimization using equities, one cannot forget that the "credit crisis" of 2007-08 successfully dispelled the notion for many investors that bonds are *"always more secure than buying equities"*. However, irrespective of the strategic methodology selected, one must still apply prudent discipline and asset allocation principles.

Bear in mind, too, that "high dividend paying" stocks are not interchangeable, nor can one just "throw darts" to build a portfolio. My metrics, for example, optimize the selection process by quantifying the relative strength of each security under review. **Applying a proprietary quotient to risk factors enables us to group time-weighted calculations so that risk to the portfolio as a whole is significantly less than that of each of the members within that portfolio.** These rankings relate to current and past trend analysis, helping to minimize any prospective risk to future performance.

**Stay calm**

The market is no doubt looking for guidance from "experts" regarding these seismic shifts in asset balances. On the heels of last year's remarkable recovery rally many are wondering what the second act might bring. Amid this dilemma, I find that clients/prospects are measuring risk not so much by an implied improbability of another record-breaking year, but by their desire not to be left behind if, in fact, it were to happen again!! **They seem to forget that, over time, the measure of portfolio success comes from minimizing the effect of downside risk (drawdown), not by how much one meets or exceeds common short-term benchmarks.**

Volatility is a given. At the valuation levels we find ourselves currently, the probability is greater that we recede than advance. Of course, no one knows that for sure. What we do know is that violent or unexpected turnarounds are always likely, and can undermine investor confidence more swiftly than it takes to build that confidence in the first place. Being fixated, as many are, by the "short-term" is divisive and counter-productive to strategic asset allocation methodologies.

It appears, unfortunately, that high anxiety is here to stay.

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