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Signature Estate & Investment Advisors LLC
Mark E. Copeland, CFP®, Senior Partner

"How do I increase my portfolio's cash flow in a low interest rate environment?"

By Mark E. Copeland

Today's volatile equity and fixed-income markets have renewed our clients' interest in portfolio yield. For monthly income purposes or total portfolio return, dividends, interest and call-option premiums have a heightened importance.

For these investors, and for you who share their concerns, we suggest several strategies to improve earnings. While one of the axioms of investing states that to get a higher yield you need to accept higher risk, most of the strategies we suggest either improve yield with minimal risk or actually reduce it.

SECTORS, DURATION, CREDIT QUALITY

In your search for securities delivering the highest yield, do not get lopsided in any one security or sector. Diversification applies to bond investing in addition to equity investing. Due to a volatile interest rate climate and credit markets, diversifying your credit quality, duration and industries when investing in bonds will increase yield and minimize the downside risk. Diversify sectors, global regions and industries within your equity investing to avoid headline risk or overweighting any one sector. Remain alert to other sectors moving into high-yield mode.

BONDS

Fixed-income investing has benefited from two decades of falling interest rates. With rates at multiyear lows, the threat of rising rates should be factored in your bond investing strategy. Shorter-duration bonds may pay less, but they will limit the risk of a rising interest rate environment. Consider reducing credit quality on a portion of your bond portfolio for higher yield. As the economy stabilizes and credit improves, lower-grade bonds may increase the value, partially offsetting the impact of rising interest rates. In short, diversify duration and credit quality for higher yield with minimal added risk.

DIVIDENDS IN EQUITIES/STOCKS

Yields on cash and bonds have significantly fallen; consider adding dividend-paying equities to your portfolio. Adding up to 20 percent high-paying equities from a variety of sectors can reduce the risk of being in all fixed income. Look for companies with the best balance sheet, free cash flow, and the least amount of debt. Search for companies that have recently increased their dividends. A company rarely cuts dividends soon after a good dividend quarter. Avoid the temptation to buy the highest-yielding equities, as often the share price is correctly predicting a change in dividend payout. A covered-call option strategy can be paired with the purchase of dividend-paying stocks to further reduce risk and add cash flow.

ALTERNATIVES

Allocating a portion of your portfolio into alternative security types such as oil pipelines, REITS and managed commodity funds can enhance portfolio yield. They are not free of risk, of course, but at times they can act as a hedge verses traditional investment vehicles. We recommend making alternatives only 5 to 10 percent of your portfolio.

THE COVERED CALL: ANOTHER SOURCE OF INCOME

Covered-call writing is either the simultaneous purchase of stock and the sale of a call option or the sale of a call option against a stock held by an investor. Here is how it works:

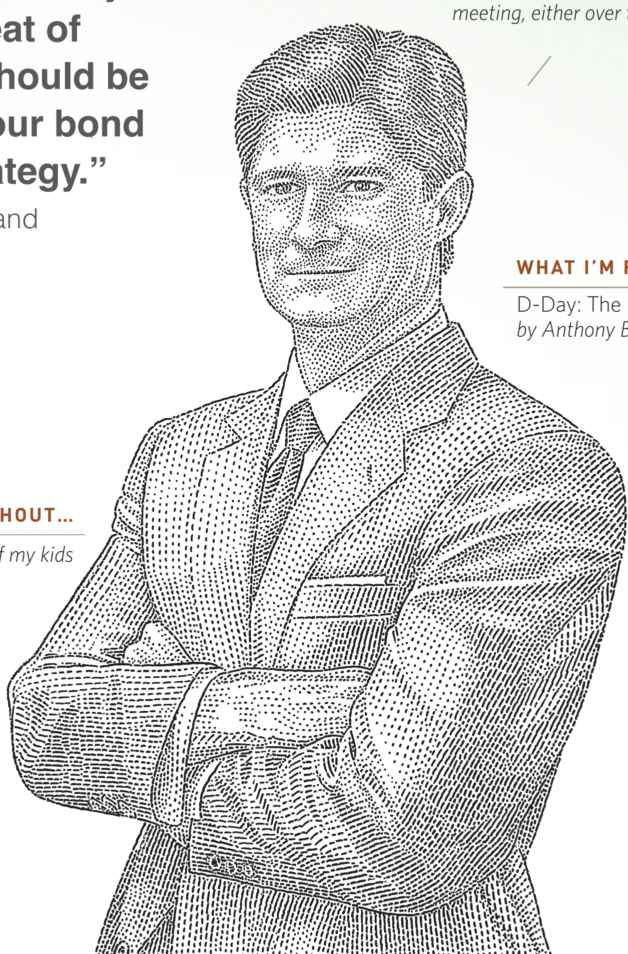
Company A is selling for $29 per share and is paying a 3½ percent annual dividend. Our client buys shares and sells the right to another investor to purchase it if it hits $31 within four months. For this right, the buyer pays our client $1.50 per share in premium. If the stock does not reach $31, the option expires, we keep the stock and collect the premium. If the stock jumps to $40 we must sell at $31, but we receive the premium plus the share price gain ($2) for a total of $3.50 per share. This strategy is more conservative than just buying the stock because you receive a premium and lower your breakeven price.

"With rates at multiyear lows, the threat of rising rates should be factored in your bond investing strategy."

– Mark E. Copeland

How to reach Mark E. Copeland

Please call my office at 949.705.5188 to schedule a meeting, either over the telephone or face to face.



WHAT I'M READING NOW…

D-Day: The Battle for Normandy, *by Anthony Beevor*

I NEVER LEAVE HOME WITHOUT…

BlackBerry, wallet and at least one of my kids

MY HOBBIES ARE…

Coaching my children's sports teams, golfing and travel

About Mark E. Copeland

Mark E. Copeland has been in the financial services industry since 1987 and is one of the four founding partners of SEIA. Fewer than 10 years after the company's inception, SEIA reached the milestone of $1 billion in assets under management. Mr. Copeland graduated from the University of California, Los Angeles, with a degree in business economics and is a Certified Financial Planner professional. His emphasis is investment planning and wealth management for affluent individuals, athletes and corporations. He is a frequent speaker on the subjects of asset management, retirement plan distribution methods, and estate preservation. An Orange County native, he resides in Tustin, Calif., with his wife, Kathy, and their four children.

Assets Under Management
$293 million (Copeland)
$1.6 billion (firm, as of end of Q1 2010)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)

Largest Client Net Worth
$100 million+

Financial Services Experience
23 years

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodian for Investor Assets
Charles Schwab & Co.

Professional Services Provided Estate, retirement, corporate benefit, income tax and insurance planning; investment advisory and money management services

Association Memberships National Association of Insurance and Financial Advisors, Financial Services Institute, Financial Planning Association

Website
www.seia.com

Email
mcopeland@seia.com

Signature Estate & Investment Advisors LLC | 2010 Main Street, Suite 350, Irvine, CA 92614 | 949.705.5188

Mark E. Copeland, CFP®
Senior Partner

Signature Estate & Investment Advisors LLC
2010 Main Street, Suite 350
Irvine, CA 92614
Tel. 949.705.5188

Email: mcopeland@seia.com

www.seia.com

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