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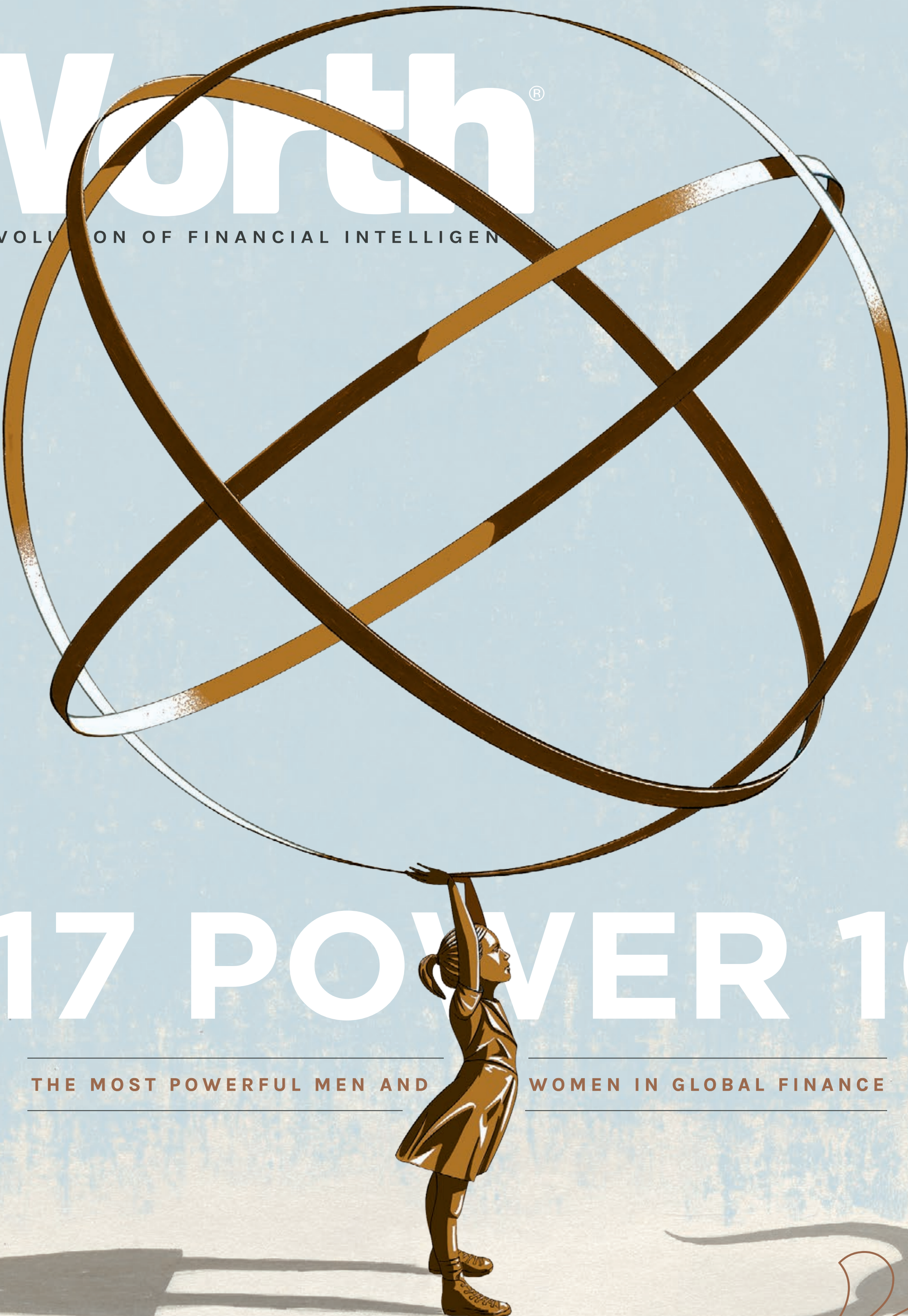

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How do I create a high-dividend income stream?

BY JENNIFER KIM

WHAT I'M READING NOW...
The 10X Rule
by Grant Cardone

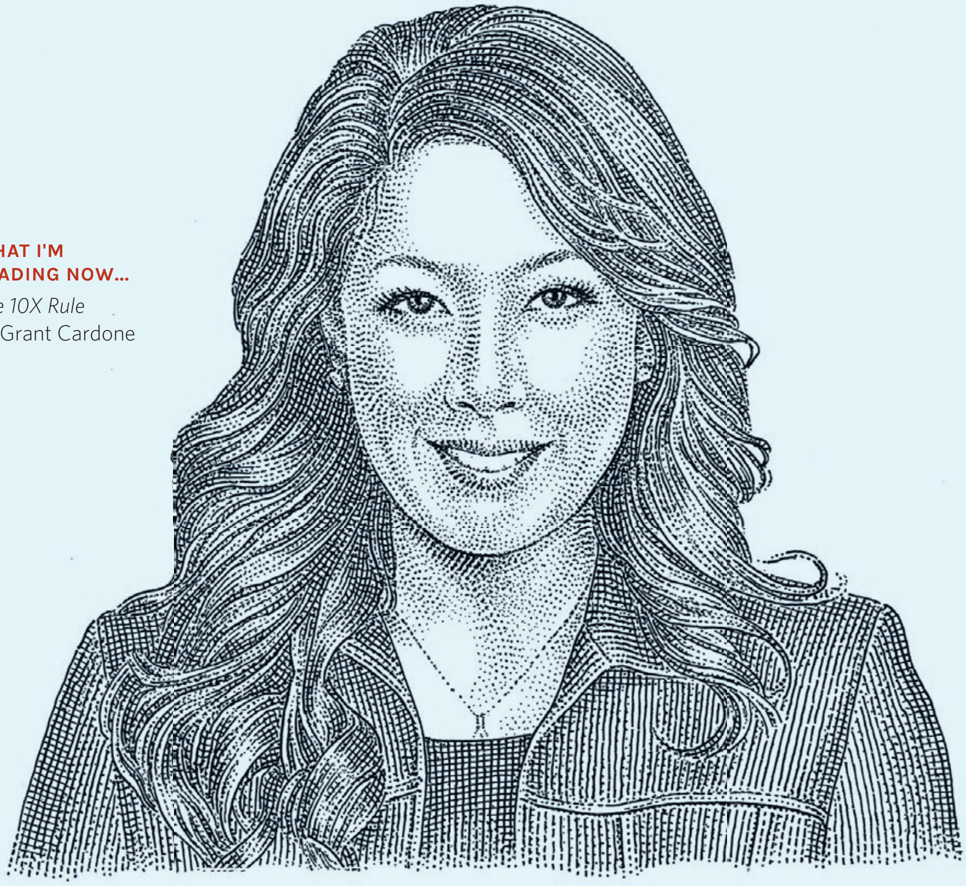

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ILLUSTRATION BY KEVIN SPROULS

The case for periodic portfolio rebalancing is a sound one: Invariably, a portfolio's target allocation becomes skewed—whether from the outperformance of a single stock or sector, or due to the kind of broad equity overweighting accompanying a prolonged bull market. You wake up one morning and realize that what was once a 60/40 stock-to-bond portfolio is now at 75/25.

So, without intending to, you're assuming more risk than you wanted, and at a time when downside protection might be most advisable.

Given the duration of this current bull market and continual new highs, this may be an ideal time to explore rebalancing strategies with your advisor. The challenge, however, lies in not triggering the significant capital gains taxes associated with selling highly appreciated stocks.

One potential approach? High-dividend securities, to generate sufficient portfolio income, to enable gradual rebalancing.

WHY USE DIVIDEND INCOME TO REBALANCE?

Typically, investors plow back dividends into the purchase of additional shares of the same security through dividend-reinvestment plans. This strategy, however, often accelerates the need to rebalance. By channeling those dividends into other sectors, you will help prevent an individual security from comprising too large a position in your portfolio and may reduce or eliminate capital gains while rebalancing.

THE 10 HIGHEST DIVIDEND STOCKS IN THE S&P 500 (as of August 1, 2017)

1. CenturyLink (CTL)
2. Seagate Technology (STX)
3. Macy's (M)
4. Iron Mountain (IRM)
5. Helmerich & Payne (HP)
6. Ford Motor (F)
7. L Brands (LB)
8. Kimco Realty (KIM)
9. Kohl's Corp (KSS)
10. AT&T (T)

> "One potential approach is to rely on high-dividend securities to generate sufficient portfolio income, to enable gradual rebalancing."

Rebalancing through dividend reallocation could also counteract a common propensity to become too married to an outperforming stock. This *recency bias* seduces us into believing that what has been going up will continue to rise.

Fueling Your Dividend Income Stream

Given the rarefied air that equity markets are currently experiencing, now may be an opportune time to deploy a dividend-income approach to rebalancing, especially given the recent performance of growth stocks like Apple, compared to high-dividend-paying value stocks like GE.

Granted, you may be reluctant to sell winners and lock in capital gains. But ask yourself: Would you rather sell those shares now when prices are high, or wait until they lose value to the point where there aren't any gains left?

Keep in mind that while increasing your allocation to high-dividend securities is often a sound strategy in a mature bull market, you need to be careful about timing those allocations. Many of the highest-dividend stocks at the start of 2017 are 10 percent to 30 percent lower today. It's also important to hedge your portfolio against a market downturn. Regardless of how well diversified your stocks may be among growth, value, large-cap, small-cap, international and emerging markets, when the market eventually heads south, nearly all equities will to a greater or lesser degree follow suit.

The message? After more than eight years of steady gains, now may be a good time to reallocate. Talk to your advisor about these and other tax-smart ways to reduce your overall portfolio risk. ●

ABOUT US

JENNIFER KIM IS A SENIOR PARTNER WITH SIGNATURE ESTATE & INVESTMENT ADVISORS LLC (SEIA). Jennifer received her bachelor of arts degree in economics from the University of California—Los Angeles (UCLA) in 1992. She has been in the securities and insurance business since 1993, and she specializes in investment and wealth management for affluent individuals and corporations. Jennifer is a certified financial planner (CFP®) professional. She completed the chartered financial consultant (ChFC) and chartered life underwriter (CLU) certifications through The American College. Jennifer also completed the chartered mutual fund counselor (CMFC) education program and completed her master's degree in professional financial planning through the College for Financial Planning in 2013. She lives in the Hancock Park area of Los Angeles with her husband and four children. ●

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