



Income Investing Strategies to Attain Higher Yields

For many years, the yield-seeker's lot was a discouraging one. Bank deposits and government bonds paid little or nothing, and ever-ascending stock prices depressed the dividend yields on new money. Fortunately, and especially since the recovery from the pandemic crash of March 2020, robust U.S. economic growth and a tsunami of cash chasing cash flow continue to reward high-yield strategies centered on closed-end and options-writing funds, preferred stocks, real estate investment trusts, energy infrastructure partnerships, and lower-rated, higher-coupon corporate and municipal bonds. Besides paying ample interest and dividends, such assets commonly add substantial long-term principal value for selective and fearless investors willing

and able to absorb the occasional punches. This is why for 15 years *Kiplinger Investing for Income* has proudly and squarely stood with the so-called global hunt for yield, the

paying categories. Our expression for opting out is "taking a knee," in the manner of a quarterback declaring victory by kneeling as time expires. Or you may partially

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We understand you can earn 3% to 4% today by holding cash in a risk-free savings account, Treasury bills or a money market fund. We therefore advise readers who have accumulated enough savings for life to limit or eliminate portfolio risk despite our confidence in those high-

achieve this by reducing your exposure to stocks, real estate, credit and long-term debt to 25%, say, from 50%. But few of us, even when we have what appears to be substantial economic resources, are financially or emotionally ready to go to full-on lockbox. And our experience is that something, or most things, among the extensive list of high-income investments is always working well,

outside of rare interruptions like the COVID shutdowns and the 2008 banking and credit crisis that caused the Great Recession.

So, as we explain in every issue, Americans benefit from the existence of an amazing array of liquid, public and understandable choices that provide excellent monthly or quarterly cash income sufficient to offset not only the official inflation rate but also everyday costs and aspirations. The Kiplinger team watches dozens of high-income asset classes, sectors and subsectors, some you know well and others that may be new. The value we bring here is to identify and explain these investments and revisit each category regularly in the context of current conditions. Our primary emphasis is always on immediate and reliable cash income. The secondary priority is safeguarding capital. Yes, growth is always welcome, and many of our ideas have produced 10% or better compounded total returns. But in our model portfolios and in the Kiplinger 25 for Income, we are tolerant of cyclical price reversals. If a fund or other investment gains principal value for eight out of 10 years while maintaining its cash payouts, we are satisfied, and we trust you would embrace that same attitude.

In 2026, as we write this, we do believe vexing challenges lay ahead. There is no clear sense that the effects of the Iran war and the fuel-supply bottleneck will reverse soon, so we believe the prospects are for stubborn 3% or 4% inflation, which in turn stands to prop up interest rates higher and for a longer period than appeared likely a few months earlier. Iran and the

second- and third-order effects are not the only reasons the calm markets of the 2010s have morphed into more-volatile ones. There is the daily kerfuffle over artificial intelligence and the Federal Reserve's interest rate actions (or inactions) that are steepening the yield curve (meaning there is a widening spread between short-term and long-term yields). This has taken bond inves-

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tors, especially those in the longer maturities, on a roller-coaster ride of rallies followed by sharp sell-offs, all the way back to the disastrous year of 2022.

All this, however, does not negate or interrupt our primary bedrock belief: A sound income-investment plan is closely balanced between cash and debt (interest income) and equity (dividends and other business cash flows), with a variety of positions on both sides of that divide. Call this the Kiplinger 50-50, if you will. Unless you are fortunate enough to afford to take a knee, we advise you to sup from the whole smorgasbord of income investments. Here are some topics you can expect us to discuss periodically, and our latest thinking:

BONDS AND LOANS. Many of us have lifelong experience with Treasury bonds, or perhaps we grew up with a series of U.S. savings bonds. It is also possible that you directed IRA or 401(k) contributions to a general broad-based bond-market index fund, a mixture of government and corporate bonds along the entire maturity spectrum. The popular BND, the Vanguard Total Bond Market ETF, an index fund, yields 3.8% and has an average maturity of roughly eight years. Trouble is, this fund has exactly broken even over the past five years, even accounting for Vanguard's rock-bottom management fees.

We believe—and have shown over the years—that you can get substantially more income and total return using a variety of active and higher-rate bond strategies. We approve of buying individual bonds, perhaps by building a ladder of maturities such as three, five, 10 and 20 years. You thereby control in advance how much interest you collect, the timing of the payments and the schedule for when you get back the principal to reinvest.

That said, we have enormous respect for the expertise of the men and women who run bond funds and make constant decisions about maturity, duration, credit quality and other aspects of managing these portfolios. We have many ideas to maximize the value of bond funds so you earn much more than that Vanguard index. One is to ditch indexing and stick exclusively to actively managed funds. Within that sphere, we suggest strategies such as “barbell,” which literally takes its name from the gym equipment with weights at both ends and a gap in the middle. We also

espouse ultra-short-duration and floating-rate investments, such as slices of commercial bank loans and packages of car loans, credit card payments, airplane leases and other receivables. Not only do these holdings pay more than 3.8%, but we expect interest rates to trend higher for several months and probably into 2027, enabling these offerings to pay gradually rising monthly income.

To build a barbell, select one or two excellent short-term funds or ETFs and match them with intermediate or longer-term high-yield and flexible, or go-anywhere, bond funds. For example, a combination of the PGIM Short-Term Corporate Fund (PBSMX) and PGIM Total Return Bond (PDBAX), accompanied by a duet of Fidelity Capital & Income (FAGIX) and Thornburg Multi-Sector Bond (TMB), gives you four distinct types of portfolios from three outstanding fixed-income teams. The PGIM pair has a one-year total return through April 2026 of 5.2%, and it pays monthly at an annualized 4.1% rate. The Fidelity/Thornburg twosome yields 4.8% and currently shows one-year returns averaging 12%. You might not need us to remind you that high-yield corporate bonds—those rated below BBB—have a long history of handily outperforming Treasuries on both price and yield, but they do. This is a key area for us, and one where active management clearly pays.

An idea if you want the full faith and credit of the Treasury is pools of government-guaranteed home mortgages. Conditions are

Our primary emphasis is always on immediate and reliable cash income. The secondary priority is safeguarding capital.

such that new buyers are paying close to 7%, and few borrowers can sensibly refinance today, so GNMA (Government National Mortgage Association) mortgage-backed securities both yield more than Treasury bonds and offer possible capital appreciation if the spread between mortgage rates and ordinary bond yields should narrow, as often happens. You can find these in funds from Fidelity, Vanguard, T. Rowe Price, Pimco and other sponsors. You do not collect the full 6% to 7%, because these funds have blocks of older mortgages carrying lower rates, but the payouts should benefit as fresh higher-rate loans appear.

Other bond areas we follow closely are municipals, which benefit from tight supplies as well as the tax-free interest, and lately international credit. Overseas interest rates are often higher than in the U.S.—even where bonds and other types of credit are denominated in dollars, which shields you from complications and loss of market value due to weakening local currencies. A recent find, NRDCX, the CrossingBridge Nordic High Income Bond Fund, distributes as much as 7% from the short-term debt of assorted Scandinavian companies. This is not a sure thing, and these rates can fall, but this is an example of the almost limitless ways to prospect for extra yield without taking crazy risks that bonds will crater in value or borrowers will skip out on their obligations.

CASH AND CASH EQUIVALENTS.

We rarely consider cash or cash equivalents to be an investment. A reservoir to tap for other opportunities, a resting place, a store of value, sometimes (as in 2020 and 2022) a bomb shelter—but an investment? Nevertheless, we look for ways to earn extra income from your reserves, starting with our Juiced-Up Cash model portfolio, which we update three times a year. At last reading, this collection is returning more than 4%, a better deal than your bank is likely to offer.

There is no one-size-fits-all suggestion on how much cash anyone should have as a proportion of their overall portfolio. A more pertinent decision is whether to assure yourself of currently available rates by using a device such as a CD ladder, or to maintain flexibility and liquidity. If the Federal Reserve resumes boosting the interest rates it controls, which is possible if the current upward inflation trend continues, you theoretically benefit by floating your rates rather than locking them. But in early 2026, yields in the two- to five-year area are bumping up, offering the opportunity to guarantee an extra half percentage point or so over what you were able to find last year. It is easier to go right than wrong.

AND NOW, WE TURN TO EQUITY.

Most investment advisory letters emphasize their buy-sell-hold ideas of the week or the month. Not us. Occasionally, we will point out what we believe is an unusual opportunity,

usually if traders beat down the price of a blue-chip security with a healthy dividend record. AT&T shares, for example, hit a 30-year low in 2023 despite their heavy dividend, which peaked at 7.5%, a level implying not just a possible recession but arguably a severe contraction. Shares of T have now doubled over three years, helped by changes in strategy and leadership.

So while we are not stock pickers or market timers, we pay attention to AT&T and other periodically oversold issues that pay good dividends, because our mission on the equity side of the 50-50 fence is to tap stocks, commodities, real estate and other sources of constant cash flow from business profits. Over a holding period, rising dividends turbocharge your personal yield on original cost far above the posted yield (which rests on the current dividend rate and share price). As one bedrock long-term approach, we often cite BHCG, or buy, hold, collect and grow. That does not work well when you move in and out of a stock or a fund. It requires commitment. We can use McDonald's as an example, though there are hundreds. Since we began publishing in 2012, McDonald's share price has moved from \$100 to \$300, notwithstanding a series of challenges, from COVID to CEO scandals to its eviction from Russia, where it was popular. But the pertinent back story is the ever-rising dividends, which have gone from \$3 a year in 2012 to today's \$7.40. If you acquired McDonald's shares in 2013, you are effectively earning a 7.4% dividend yield on top of the growth.

We constantly search for funds and stocks that fit this style, and when there is a bull market, as has been

the case since late 2023, so much the better. But we strongly suggest also accumulating a bunch of high-income equities across three specific income-oriented categories: utility stocks, real estate investment trusts

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and energy pass-throughs. Utilities are sometimes derided as dull, but in recent years, thanks to rampaging power demand, they have morphed into high-energy investments able to supply a 4% to 5% yield, 5% to 7% dividend growth, and earnings increases that mirror the economy.

REITs come in 20 varieties and normally specialize in one type of property. Our favorites are data centers, storage lockers, warehouses, medical offices and other health care properties, and individual business premises. With a single-property retail landlord's shares, such as Realty Income (O) or NNN REIT (symbol NNN, formerly known as National Retail Properties), you get constant income from a collection of CVS and Walgreens and Dollar

General and Whole Foods buildings and many other kinds of premises. Dividends gyrate between 4% and 6% but grow as leases include built-in rent increases. And while share prices bounce around, you need not worry about skipped rents or vacant properties.

The same thinking holds with pipelines. Regardless of the price of oil and gas, there is always regular traffic that translates into these businesses' fees and tolls. An income investor should place 5% to 10% of their principal in stocks, funds and partnerships that pass through these unceasing payments for processing, handling, storing, transporting and distributing all forms of energy. Currently, though infrastructure operations do not directly collect higher revenues because of \$100-a-barrel oil, they can maintain or expand their volumes and profit margins. Our strategy is to invest in a group of these names and never sell them. You may also get some useful tax benefits.

Finally, and as a reminder that we are income-first, we endorse participating in the clusters of leveraged closed-end stock funds and options-writing ETFs that have the objective of collecting 8% to 12% dividends instead of the much lesser payouts from the ordinary shares. By using QYLD, the Global X Nasdaq 100 Covered Call ETF, or XYLD, a similar ETF based on the S&P 500, you get a double-digit-percentage income stream in exchange for sacrificing capital appreciation, but also partial protection against losses when stock prices sink. These gadgets are not alternatives to regular stock portfolios but a species of their own, worthy of appreciation for their high income.